Canada Revenue Agency
Agence du revenu du Canada

Canada

annual report to parliament 2012-2013

[**minister's** message]

The Canada Revenue Agency (CRA) is responsible for administering our tax system. Our government is committed to maintaining public confidence in the fairness and integrity of the tax system.

Since being appointed Minister of National Revenue, I have had the chance to travel across the country to meet CRA employees and taxpayers. I have been very impressed with the level of professionalism and dedication that the CRA invests in all aspects of its work with individuals, businesses, and government clients. I am proud to be Minister of an organization that plays such an important role in the lives of millions of Canadians.

Our government is committed to providing Canadians with more ways to save on taxes. The federal tax burden is now the lowest it has been in 50 years. Tax reduction measures like the Tax-Free Savings Account, the Family Caregiver Tax Credit, and the new First Time Donor's Super Credit help support families and communities across Canada.

Our government wants to make the public service more affordable, efficient, and sustainable. The CRA is making real progress in modernizing the way it delivers services to Canadians. In 2012-2013, the CRA has implemented reforms with a view to making filing and paying taxes easier and to ease the burden for businesses and government. Last year, the CRA introduced the My Business Account Enquiries Service, which allows businesses to ask tax questions and receive responses online. In addition, the CRA launched the Submit Documents service, a secure online method for taxpayers and their representatives to submit supporting documentation and receipts to the CRA.

We remain steadfast in our commitment to improve Canada's competitiveness by cutting red tape for small and medium-sized enterprises. Earlier this year, my predecessor received the Golden Scissors Award for cutting red tape and improving service for small businesses. Our efforts to maintain the CRA's reputation as a world-class tax administration are paying off. According to PricewaterhouseCoopers' Paying Taxes 2013 report, Canada is still the easiest place to pay taxes in the G7 countries.

> "Tax evasion, tax avoidance, and the use of tax havens hurt all Canadians, particularly those responsible citizens who meet their tax obligations and contribute their share. The CRA takes these issues very seriously."
>
> — **Kerry-Lynne D. Findlay**

Tax evasion, aggressive tax avoidance, and the use of tax havens hurt all Canadians, particularly the responsible citizens who meet their tax obligations and contribute their share. Our government takes these issues very seriously. Budget 2013 contained a series of landmark measures to combat international tax evasion and aggressive tax planning, including an initiative to allow the CRA to pay individuals who have knowledge of major international tax non-compliance. In addition, Canadian taxpayers with foreign income or properties will have to report more detailed information to the CRA. These initiatives will increase the ability of the CRA to protect the integrity of Canada's tax system and pursue those who place an unfair burden on law-abiding Canadians.

2012-2013 was a landmark year for the CRA. More Canadians filed their taxes electronically than ever before. While more Canadians enjoyed the benefits of our fast and convenient online services, they were still able to file in the traditional fashion - on paper. I am proud to say that Canadians have more choice than before when it comes to filing taxes and receiving their benefits and tax refunds, and that our government is continuing to audit, investigate, and pursue cases of aggressive tax avoidance and international tax evasion.

As Minister of National Revenue, I am pleased to present the CRA's Annual Report 2012-2013 for tabling.

Kerry-Lynne D. Findlay

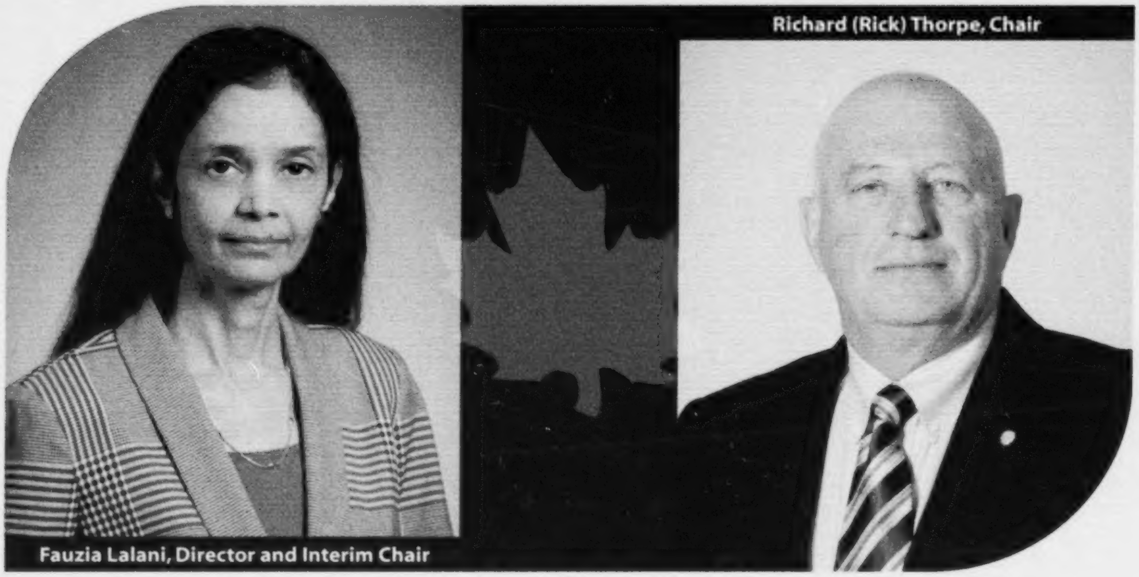
The Honourable Kerry-Lynne D. Findlay, P.C., Q.C., M.P.
Minister of National Revenue

[foreword by the **interim chair** and **chair**]

In 2012-2013, the Board continued to provide important oversight in the Agency's long term strategic direction – Vision 2020. The Board's guidance helped shape Agency strategies aimed at strengthening and modernizing the administration of tax benefits, while maintaining service excellence and supporting Government of Canada priorities. The Board also monitored the implementation of transformation initiatives and associated cost savings, impacts on human resources, and changes to services. Finally, the Board continued to encourage management to develop key performance measures aimed at strengthening the Agency's ability to determine outcomes and predict trends.

To ensure the ongoing sustainability of the Agency's workforce, the Board was engaged with management on strategic workforce planning, recruitment strategies, talent management and succession planning. Given the importance of Information Technology to the implementation of transformation initiatives, and to the efficient and effective delivery of CRA programs, the Board continued to monitor CRA's strategic investment decisions and major project investments. In support of an effective and productive working relationship with Shared Services Canada, the Board provided strategic insight and direction to further strengthen key operating and governance frameworks and agreements. This ensured that the CRA would have a strong foundation for the future, and that Canadian citizens would continue to be well served by both organizations.

The Board continued to examine and enhance the effectiveness and efficiency of its governance processes. It monitored the evolution of a risk based approach to the Board of Management Oversight Framework (BoMOF) assessment.



Richard (Rick) Thorpe, Chair

Fauzia Lalani, Director and Interim Chair

The 2012-2013 Board achievements were realized under the leadership of Susan McArthur, whose term as Chair ended in August 2013. During her tenure, Ms. McArthur brought great rigour to the execution of the Board's mandate. Given the maturity of the Board's governance and processes, she focussed on the big picture. Regarding the strategic direction of the Agency, she emphasized the streamlining of processes and encouraged timely engagement of the Board on important strategic issues under its purview. She fostered a collaborative working relationship with the Commissioner and the senior management team, as well as direct and open dialogue. The Board is honoured to have worked with Ms. McArthur.

“*Finally, members are pleased to welcome Mr. Richard Thorpe as the new Chair of the Board of Management, and look forward to working with him in advancing the strategic goals of the Agency.*

In my role as interim Chair, on behalf of the CRA Board of Management, I am pleased to recommend this report to the Minister of National Revenue, the Honourable Kerry-Lynne D. Findlay, for tabling in Parliament.”

Fauzia Lalani, P.Eng.
Director and Interim Chair,
Board of Management

“*As the new Chair of the Board of Management and Director, I am looking forward to working with the Board, the Commissioner, and the management and staff of the Agency. Under my leadership our Board will continue to fulfil its important oversight responsibilities. Together we will ensure that the CRA continues to support economic growth through red tape reduction, provide excellent service to Canadians and exhibit the highest standards of personal and corporate integrity.*”

R. S. Thorpe.

Richard (Rick) Thorpe, CPA, CMA, FCMA
Chair,
Board of Management

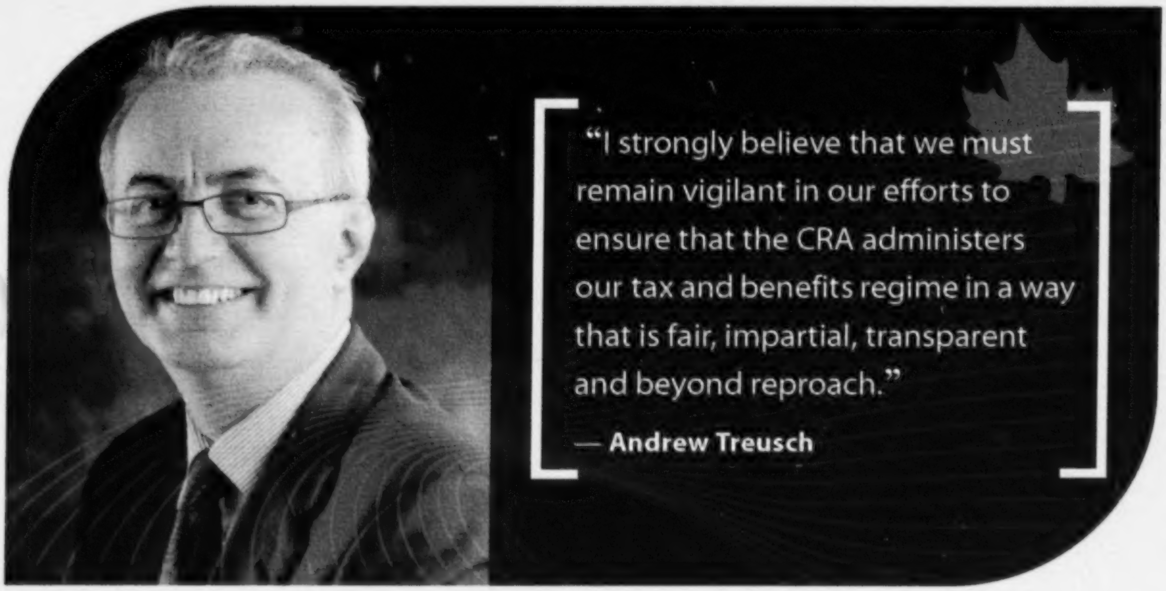
[a message from the **commissioner** of revenue and **chief executive officer**]

As Commissioner and Chief Executive Officer (CEO) of the CRA, I am pleased to present this year's Annual Report. In my role as Commissioner I am accountable to the Minister of National Revenue for the performance of our tax and benefit programs and to our Board of Management for the administration of the CRA. I would like to take this opportunity to thank both the Minister and the Board for the generous support they have provided since my appointment in January.

As you read this report you will note the themes of service, compliance, integrity and innovation appear throughout the document. Together, these four themes speak to the essence of our approach to tax and benefits administration and represent the foundation upon which we are constructing our road map for future change at the CRA.

The performance results found in this report demonstrate the CRA's reputation for excellence. This year's results also confirm that the way the CRA provides service to businesses and individuals is continuing to evolve. This filing season 76% of the tax and benefit returns received by the CRA were filed electronically. Our CRA Web site received over 100 million visits, representing a 21% increase over the previous year. Each year, a growing number of individuals and businesses are embracing CRA e-services and electronic information products. Our e-service strategy is allowing us to address the service expectations and needs of the people and businesses that we serve and reduce the cost of service delivery. As we move forward, we will also take care to ensure that we continue to address the service needs of all of our clients.

The CRA is in the midst of transformative changes that are driven by technological advancements, societal change and our strategic vision. In addition, business transformation at the CRA is propelled by a need to support the priorities of government. The CRA continued its leadership role in support of government wide initiatives. In 2012-2013, we played a major role in the implementation of several important whole of government initiatives such as Red Tape Reduction and the launch of Shared Services Canada. As well, we moved to streamline our backroom operations to reduce administrative cost in order to meet the deficit reduction commitments announced in the 2013 Federal Budget. These spending reductions were achieved without impacting the CRA's frontline compliance or service delivery capacity.



> "I strongly believe that we must remain vigilant in our efforts to ensure that the CRA administers our tax and benefits regime in a way that is fair, impartial, transparent and beyond reproach."
>
> — **Andrew Treusch**

I would like to highlight the importance of integrity and compliance. One of my first actions as Commissioner was to implement changes to strengthen the CRA's integrity framework. I strongly believe that we must remain vigilant in our efforts to ensure that the CRA administers our tax and benefits regime in a way that is fair, impartial, transparent and beyond reproach. The trust that Canadians place in the integrity of our tax and benefits administration is the bedrock that supports our self-assessment system. Trust in our system is also built and preserved by ensuring that everyone pays their share. This is why the Underground Economy and Aggressive Tax Planning schemes are of special concern to us as tax administrators. They erode the tax base and they undermine the trust that Canadians place in the fairness and equity of our tax system. The CRA is aggressively tackling these difficult issues through greater international cooperation and the implementation of legislative initiatives to strengthen our administrative and enforcement tools. We view non-compliance as a direct and real threat to the integrity of our self-assessment system and we will continue to focus resources on addressing and mitigating its impact.

As the Commissioner of the CRA, I am proud of the results we have achieved this past year. In submitting this report, I would like to extend my sincere gratitude to all of our employees. The true strength of our organization is our capable and dedicated staff. The perseverance and hard work demonstrated everyday by our employees and management has made these successful results possible.

Andrew Treusch
Commissioner of Revenue and
Chief Executive Officer of the CRA

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In 2012-2013

we processed
$436 billion
in taxes and duties

we issued
123 million
benefit and credit payments

our audits generated a fiscal impact of
$9.4 billion

we resolved
$37 billion
in outstanding tax debt

[section 1: **introduction**]

[our **agency**]

The Canada Revenue Agency (CRA) is responsible for administering, assessing, and collecting hundreds of billions of dollars in tax revenues annually. The money the CRA collects is used by federal, provincial, territorial and First Nations governments to fund important social programs, provide essential services, and build and maintain the infrastructure needed for continued economic prosperity. The CRA also directly delivers billions of dollars in benefits and tax credits that contribute to the well-being of Canadian families, children, seniors, and persons with disabilities.

In carrying out its mandate, the CRA strives to ensure that Canadians:

- pay their required share of taxes;
- receive their rightful entitlements; and
- are provided with an impartial and responsive review of contested decisions.

At the CRA we are:

- **supporting job creation and economic growth**, by streamlining our processes and easing the compliance burden on business.
- **helping hard-working Canadian families**, by making sure they get the benefits and credits to which they are entitled, on time.
- **reducing the cost of government,** by improving the efficiency of our back-room operations and providing modern, efficient services.
- **demonstrating integrity and accountability,** by conducting our affairs with integrity, professionalism and transparency.

[our **commitment**]

We are committed to contributing to the well-being of Canadians and supporting economic prosperity by delivering an efficient world-class tax and benefit administration that is responsive, effective, and trusted.

[our **key results**]

Performance indicators	Targets	2010-2011	2011-2012	2012-2013
Individuals who paid their reported taxes on time	90%	94%	94%	95%
Individuals that filed their tax return on time	90%	93%	91%	92%
Corporations with taxable income that filed their tax return on time	90%	85%	85%	85%
Businesses registered for the GST/HST	90%	93%	94%	95%

[the **four pillars** of our **approach**]

providing exceptional **service** to make compliance easier

We believe that providing service excellence and easing the compliance burden is the best way to empower taxpayers to comply and ensure that benefit recipients receive the benefits to which they are entitled.

ensuring **compliance** to safeguard our self-assessment system

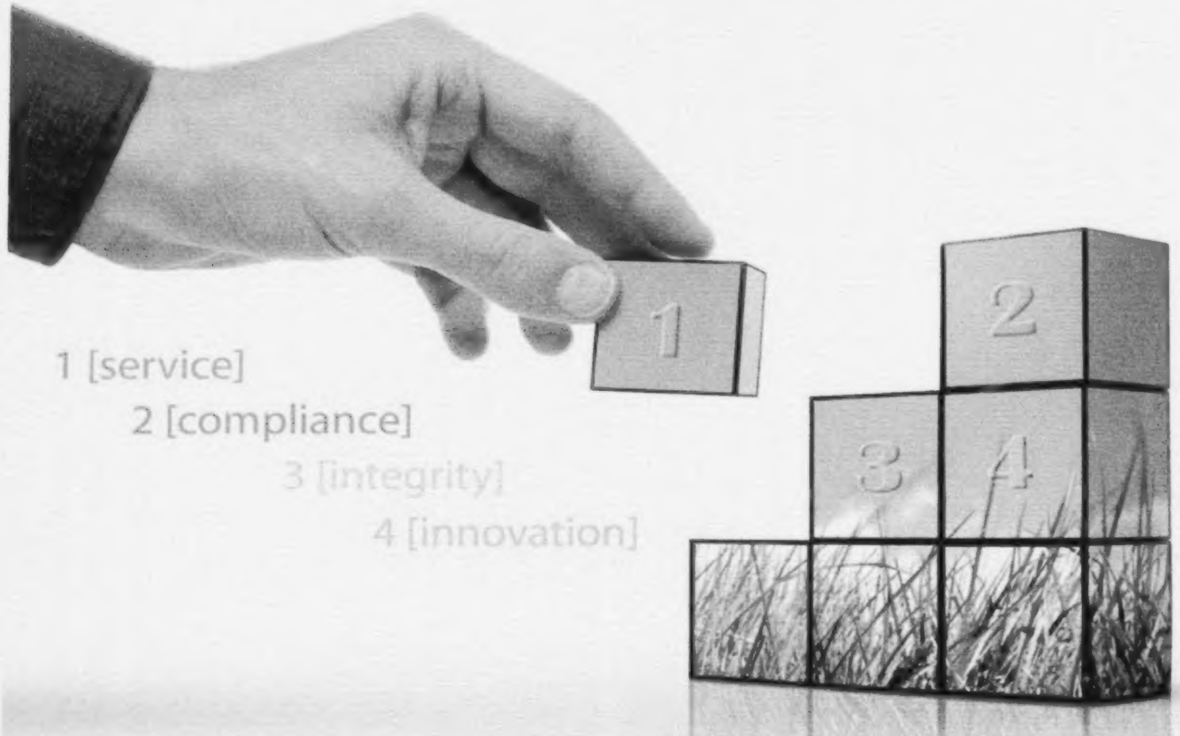
Canadians must have confidence in the fairness and integrity of their tax system. That's why the CRA is committed to ensuring that everyone pays their share. If left unchecked, non-compliance undermines the basis of our self- assessment tax system and impairs the ability of the government to fund important programs and invest in critical infrastructure. We ensure compliance by detecting, deterring, and correcting the behaviour of those who are non-compliant through error or willful neglect.

acting with **integrity** to maintain the trust of Canadians

Our absolute commitment to integrity preserves and strengthens the trust Canadians place in our administration and is essential to the success of our self-assessment tax system. Whether we are providing services or enforcing the law, conducting our affairs with complete integrity is at the core of all that we do.

leading change through **innovation**

Our approach to innovation is driven by our desire to remain a world-class tax and benefits administration. From the delivery of tax information through social media to the re-engineering of internal processes, we are demonstrating our ability to innovate and find better ways to meet the evolving needs and expectations of taxpayers, benefit recipients, and governments. Our IT investments are the driving force behind innovation. As an organization, we are not satisfied by simply reacting to change, we are embracing innovation and leading change.



[our **strategic directions**]

Vision 2020 sets out the strategic directions in which we must move as an organization to continue to deliver the best possible tax and benefits administration for all Canadians. By moving in these directions we are complementing and strengthening the four pillars of our fundamental approach to the administration of Canada's tax and benefit system.

VISION 2020: **CRA STRATEGIC DIRECTIONS**

SERVICE AND **COMPLIANCE** CONTINUUM

MANAGE
SERVICE AND COMPLIANCE INTELLIGENTLY

From a variety of approaches to understanding taxpayers and assessing risks within each program

To business intelligence and advanced analytics applied across the CRA to ensure the most effective and efficient intervention at the right point in the service and compliance continuum

INTEGRATE
THE TAXPAYER EXPERIENCE

From functionally-driven service delivery contact points

To a taxpayer-centric approach that minimizes interactions and simplifies access to information and services

EARLY
CERTAINTY ABOUT TAX ISSUES

From a standardized approach with resource-intensive and lengthy recourse processes

To flexible and streamlined practices that are accessible for smaller taxpayers and provide certainty up front for cooperative taxpayers

INFLUENCE
COMPLIANCE ATTITUDES

From accepting taxpayer compliance posture as a 'given'

To promoting the link between paying taxes and maintaining our society through engagement strategies that leverage personal and social norms and employ a variety of media and messengers

THE **LEVERS**

EXTEND
OUR REACH THROUGH THIRD PARTIES

From trying to do it all ourselves

To using third parties more systematically to improve program outcomes

DRIVE
TO ELECTRONIC

From a mix of manual processes and electronic tools designed for specific purposes

To fully integrated technology solutions for taxpayer segments and internal services, with the maximum degree of automation and self-service

BETTER
DATA, USED BETTER

From data repositories that serve specific operational purposes

To an enterprise approach to aggregate data that supports a sophisticated analytics capacity

CORPORATE **FOUNDATION**

OPTIMIZE
OUR ORGANIZATION

From an organizational design that emphasizes functional, geographic and historic approaches to workload distribution

To an organizational design that promotes taxpayer centric approaches, delivers workload to available technical capacity with effective knowledge management support, and maximizes efficiency

BUILD
THE WORKFORCE AND WORKPLACE OF THE FUTURE

From a traditional workplace and a workforce that is transactionally-oriented, rules based, functionally and geographically organized

To a workplace that is designed to support high performance with a diverse workforce that is knowledge-seeking, innovative, versatile and resilient, driven by values and focused on results

[how to read this year's **report**]

This report outlines the CRA's performance results for the 2012-2013 fiscal year. The results achieved demonstrate that the CRA is an effective and efficient tax and benefits administrator and is contributing to the ongoing economic and social well-being of Canadians. Despite our success, we recognize that in order to continue to be one of the worlds leading tax and benefits administrations, we must have a clear strategic vision for the future. This report tells the story of our strategic journey as we head towards Vision 2020 and strengthen the four pillars of our approach to tax and benefits administration.

In addition to telling the story of our strategic journey and providing this years performance results, this report also details the steps we have undertaken to deliver on our commitment to support the government's efforts to reduce the federal deficit. We are contributing to this important government priority through our participation in several government-wide initiatives and by the implementation of cost saving and containment measures within our own organization.

There is no doubt that the need to deliver on deficit reduction commitments has accelerated the pace of change at the CRA. However, readers of this document should also understand that while the pace of change at the CRA may be affected by a need to meet immediate government priorities, the substance and nature of these changes is always determined by our longer term strategic directions and the CRA's fundamental approach to tax and benefits administration.

The initiatives and program improvements described in this report are best viewed through the lens of the four pillars of our approach to tax and benefits administration. When viewed in this way, the initiatives highlighted in this year's report are seen in their proper context. The investments we have made in infrastructure, the changes we have implemented in our operations and the new services we have introduced have all been made with the express purpose of improving our capacity to:

- provide exceptional service to make compliance easier;
- ensure compliance and safeguard our self-assessment system;
- act with integrity to maintain the trust of Canadians; and
- leading change through innovation.

Our initiatives and investments decisions have been guided by our CRA strategic directions and implemented to enhance the fundamentals of our approach to tax and benefits administration. This is true whether we have been working with international partners to combat aggressive tax planning and the underground economy, enhancing our e-services and information products, or participating in government-wide initiatives such as red tape reduction.

This year's report tells the performance story of an organization with a sound approach and a clear strategic vision that is building for the future, supporting important government priorities, and delivering on its mandate.

A record **76%** of income and benefit returns were filed electronically in the 2013 tax-filing season

The total value of the payments processed was approximately **$436 billion**

[section 2: our **programs**]

[assessment of **returns** and **payment processing**]

[program **description**]

The CRA undertakes a wide range of activities to assess and process tax returns, information returns, and payments for individuals and businesses. We undertake activities that make it easier for individuals and businesses to meet their filing, reporting, and payment obligations. We assess, process, and adjust tax returns for individuals and businesses. We review information provided to find errors. We detect non-compliance through risk assessment and third-party data matching. Through these activities, we support the process of assessing tax returns from beginning to end.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
617,948	660,575	709,447	**643,800**	16,775

Sub-program	Planned spending[1]	Actual spending[2]	Difference
Individual returns and payment processing	308,438	**298,365**	10,073
Business returns and payment processing	209,137	**203,212**	5,925
GST administration in Quebec	143,000	**142,223**	777
Total	**660,575**	**643,800**	**16,775**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
Individual returns and payment processing	4,235	**3,958**	277
Business returns and payment processing	2,805	**2,577**	228
GST administration in Quebec	nil	**nil**	nil
Total	**7,040**	**6,535**	**505**

Numbers may not add due to rounding.

[sub-program **description**]

Individual returns and payment processing	The Individual Returns and Payment Processing Program ensures individuals have the services they require to voluntarily comply with Canada's tax laws. It processes all the information filed and payments submitted by individuals. It also assesses and validates the information and advises individuals of the results of their assessment or reassessment.
Business returns and payment processing	The Business Returns and Payment Processing Program ensures businesses have the services they require to voluntarily comply with Canada's tax laws. It processes all the information filed and payments submitted by businesses. It also assesses and validates the information and advises businesses of the results of their assessment or reassessment. The program also registers businesses in Canada for a business number, maintains account status and administers the excise programs.
GST administration in Quebec	The Goods and Services Tax Administration in Quebec Program administers both the memorandum of understanding with Revenu Québec and payments to Revenu Québec for the administration of the goods and services tax in the province of Quebec.

[performance **analysis** and **lessons** learned]

[**supporting** the assessment of **returns** and **payment processing**]

Filing returns and making payments should be easy. Recognizing that Canadians are increasingly turning towards online services to interact with government, we maintain portals like My Account and My Business Account so that taxpayers can manage their tax and benefit information online. Taxpayers are more likely to comply if it is easy to do so, and the services we offer make managing tax affairs and filing tax returns easy and simple.

[**My Account** for **individuals**]

We launched My Account in 2003 in response to growing demand for self-service and to allow users to take control of their data, enabling them to access their information from anywhere at any time. My Account is a secure portal that allows an individual to track their refund, view or change their return, check their benefit and credit payments and RRSP limit, change their address or phone numbers, set up direct deposit, and much more.

Services
Dow

Key result:

- 6.7 million logins were made to My Account for individuals, an increase of 14.8% over 2011-2012. More than 546,000 individuals accessed My Account for individuals for the first time

We continually look to improve functionalities in My Account as we want to provide greater flexibility and new ways for users to manage their tax affairs. To that end, we made several improvements and added new services to My Account, including:

- the ability to request a remittance form
- the status of returns showing more clearly in the welcome page of My Account

Taxpayers and benefit recipients can view basic tax information using Quick Access. To do so, they need to confirm their identity using their social insurance number, date of birth, and information entered on their income tax and benefit returns from previous years. This service gives an individual immediate access to some of their information in My Account, such as the ability to view tax return status, RRSP deduction limit, TFSA contribution room, and the status of benefit payments.

Key result:

- Close to a million logins were made to Quick Access. More than 424,000 individuals viewed their tax information using Quick Access for the first time

Focus on small businesses

Small businesses are the heart of the Canadian economy. Since 98% of Canadian businesses have fewer than 100 employees, the time and resources spent to deal with regulatory issues represent a major concern for the competitiveness of the sector. As a result, the CRA is taking on a number of initiatives to reduce the administrative burden and the time and costs associated with filing tax returns and payment processing for businesses. Our goal is to make it faster and easier for Canadian businesses to do business with the CRA and to comply with Canada's tax laws.

The initiative to establish the CRA's business number as the common identifier for federal, provincial, and municipal interactions with businesses is part of the effort to improve information sharing and reduce the number of interactions with government for small businesses. So far, six provinces and one city have adopted the business number. We expect more municipalities and governments to adopt the business number to facilitate registration and eliminate duplicate accounts and errors.

Small businesses have ideas on how the CRA can better respond to their needs, and we consult with them regularly to better understand their concerns and implement changes in service when possible. For example, after consulting with small businesses in November 2012, we promoted direct deposit and the hiring credit for small business and launched our new business landing page www.cra.gc.ca/businessonline. We know that small businesses will find it convenient to be able to access services like submit an enquiry, ask for a CPP/EI ruling, and calculate payroll deductions from the same Web page.

[**My Business** Account]

My Business Account is a secure online portal that allows business owners to have immediate access to their information and to manage various business accounts such as GST/HST, payroll, corporation income taxes, excise taxes, excise duties, and more. For example, the ability to download missing tax information slips can save business owners time and aggravation. This portal is invaluable for business owners who want to monitor their tax affairs closely. Authorized representatives can also access these services through Represent a Client.

Key result:

- Close to 2.7 million logins were made to My Business Account. The number of businesses that are enrolled in My Business Account and have a business number more than doubled in the last three years

My Business Account is one of the main focuses of our strategy to empower business owners and to reduce the cost, time, and effort that go into complying with Canada's tax laws. To deliver on the needs and expectations of business owners, we made several improvements and added new services to My Business Account, including:

- The My Business Account enquiries service allows businesses to ask tax questions online related to their account and receive information they can rely on in writing. In 2012-2013, the CRA responded to almost 5,000 enquiries online
- We redesigned My Business Account welcome page to meet accessibility standards
- We added a new option in Payroll to enable small business owners to request a refund for the hiring credit for small business
- Through Manage Online Mail, business owners are now able to receive an email notification that account specific correspondence is available to view in My Business Account
- The ability to file certain GST/HST elections

[**Represent** a Client]

Tax preparers are playing an increasingly important role in managing tax affairs on behalf of individuals and businesses. To facilitate the work of tax preparers and make it easier to comply with Canada's tax laws, the CRA launched the secure portal Represent a Client in 2006. This was a unique service in the world at that time.

Represent a Client allows a tax preparer or a representative to access tax information and services on behalf of individuals and businesses. The representative can be a friend or family member, an owner of a business that provides tax or payroll services for clients, or an employee of a business that provides tax or payroll services.

In 2012-2013, we improved the registration process for Represent a Client by making it much easier and faster for representatives to register for the service. Representatives now require only one identifier for their dealings with the CRA on behalf of clients and family members.

Key results:

- 5,547,661 individual accounts accessed in Represent a Client
- 2,662,741 business accounts accessed in Represent a Client

[major **initiative**]

Taxpayers and businesses want to save time and money. The CRA is exploring ways to support the assessment of returns and payment processing that reduce paper work, reduce the number of interactions between the CRA and taxpayers, and meet taxpayers' expectations for cost-effective service from the CRA.

Our latest initiative is Submit Documents, a secure online method for taxpayers and their representatives to submit supporting documentation and receipts to the CRA. Submit Documents was implemented in 2012 for our first early adopter, the Corporation Assessing Review Program.

[Community **Volunteer** Income Tax Program]

Every year, thousands of eligible Canadians are getting help from volunteers of the Community Volunteer Income Tax Program (CVITP). Since filing an income tax and benefit return is essential for an individual to receive their entitled benefits, the CRA has a vested interest in supporting CVITP volunteers. As such, the CRA expects to continue to play an important role in offering training and tax software for the volunteers as well as a network of coordinators to guide community organizations as they deliver the program.

Key result:

- Volunteers completed 565,621 income tax returns on behalf of eligible Canadians

[assessing **returns** and **payment processing**]

Each year, the CRA assesses millions of tax returns for individuals and businesses. We process these returns

Increasing electronic filing

Online filing offers the benefits of being faster, simpler, more efficient and more environmentally sustainable than filing paper returns. In 2011, roughly 1.3 million tax-filing packages were mailed out but never used. As more taxpayers shift to online services, including electronic filing, use of our printed products and TELEFILE service has diminished significantly.

The CRA has committed to reducing costs and waste. As a result, the TELEFILE service for individuals was discontinued and T1 personalized income tax and benefit packages were not mailed out for the 2012 tax year. However, Canadians were still able to file in the traditional fashion – on paper. The CRA introduced initiatives to increase electronic filing and achieve better consistency, including:

- Updating the Get ready Web page to better accommodate first-time electronic filers.
- Eliminating the NETFILE access code. Only the taxpayer's SIN and date of birth are required to NETFILE.
- Permitting first-time filers to NETFILE.
- Promoting free certified software on the CRA Web site and in various CRA communication products.
- Introducing mandatory electronic filing for tax preparers who, for a fee, prepare more than 10 corporation or individual returns.

and enter the information into our systems to update taxpayer accounts and determine the current status of their tax obligations. We then store the returns for future reference. We carry out activities to detect non-compliance both before and after tax returns are assessed. When we find errors on tax returns, we correct them. Our goal is to process returns and payments as quickly and accurately as possible so that Canadians maintain confidence in the integrity of Canada's self-assessment system and Canada's revenue base is protected.

Although we missed slightly on our service standard for processing GST/HST returns, we exceeded our targets for processing corporation income tax returns and excise tax, duty, air travellers security charge, and softwood lumber returns.

Key results:

- We assessed more than 27 million income tax and benefit returns for individuals
- We processed about 2.1 million corporation income tax returns
- We processed over 7.4 million GST/HST returns
- We processed more than 35 million payments
- The total value of all payments processed is approximately $436 billion

More individuals and businesses are filing and paying online because it is quicker and easier. The CRA can process electronic returns and payments faster; individuals who have previously set up direct deposit can expect to receive their refunds in as little as eight business days. Taxpayers who request electronic adjustments to their income tax and benefit returns can expect us to respond within two weeks. This compares favourably to the seven weeks we usually need to process requests submitted on paper.

We led a strong campaign to encourage individuals to file electronically during the 2013 tax-filing season. A record 76% of income tax and benefit returns were filed electronically, 11 percentage points over the percentage of income tax and benefit returns filed electronically between February 2012 and August 2012.

Key results:

- 76% of individual tax returns were filed electronically
- On average, we processed tax returns filed electronically within 11 days, compared to 30 days for tax returns filed on paper
- 64% of GST/HST returns were filed electronically, almost 7 percentage points higher than in 2011-2012
- 69.9% of corporation income tax returns were filed online, 8 percentage points higher than in 2011-2012
- The number of T4 information returns filed electronically increased by almost 21%
- The volume of payments processed electronically increased by 12%

[**correct** and **detect**]

We analyze tax returns to find errors, like an amount placed on the wrong line, and to detect non-compliance. We take note of common errors to find gaps in information or services. We also detect inadmissible claims through an initial review of tax credits and amounts claimed. Finding and fixing errors as part of our early intervention programs helps us resolve non-compliance in the least intrusive way and minimizes the risk of taxpayers paying penalties and interest.

We also identify unclaimed tax credits, benefits, and overpayments for taxpayers. Then, we adjust income tax and benefit returns to reflect the beneficial adjustments.

Key results:

- We identified $162 million in additional taxes owing on income tax and benefit returns after finding errors and reviewing high-risk claims

353,064
individuals received
beneficial adjustments
to their tax returns

- 353,064 individuals received beneficial adjustments to their tax returns
- The average dollar amount per beneficial adjustment was $279

We continue our review of income tax and benefit returns after notices of assessment are sent. We select files and contact taxpayers to request further information to verify claims made on tax returns. We also compare the information we have from third parties with the information reported on tax returns. We review corporation income tax returns to ensure the accuracy and validity of corporation income tax return assessments.

Key results:

- We identified over $264 million in additional taxes through the review of information sent by taxpayers to verify claims made on their tax returns
- We found $715 million in additional taxes owing by matching information reported by taxpayers to information reported by third parties
- We identified $50 million in additional taxes owing on corporation income tax returns
- We found $144 million in additional taxes owing through a review of corporate loss carry forwards from prior years

Together, our efforts resulted in over $1.3 billion in additional tax assessed.

[conclusion]

More Canadians are choosing to manage their tax affairs through our online portals: My Account, My Business Account, and Represent a Client.

Although more Canadians enjoy the benefits of self-service, third parties are also playing a greater role in helping Canadians comply with Canada's tax laws.

The CRA is strengthening its relationship with tax preparers. By completing and filing income tax and benefit returns on behalf of millions of Canadians every year, tax preparers play an essential role in Canada's tax system. The CRA can help taxpayers comply by working with tax preparers to promote good compliance practices and by strengthening our support for the services they provide to their clients.

The CRA will continue to develop tools and services with a view to making filing and paying taxes easier and faster. Although online self-service will remain the preferred service option, the CRA will ensure that Canadians can still file their income tax and benefit returns on paper or ask for a remittance voucher to pay by cheque.

Business registration evaluation report

During 2012-2013, we conducted an internal evaluation of the CRA Business Number (BN) Program with a focus on the issues of registration efficiency, effectiveness, and coordination within the CRA.

The evaluation found that while the CRA efficiently processes applications, program costs vary significantly depending on the method of registration chosen. Registration through the online option appears to be the most cost-efficient and effective method.

The report found that there is no legislation specifying what information must be provided to obtain a BN or governing the use of information. The report also mentioned that incomplete registration data can negatively affect the CRA's efforts to ensure compliance with tax obligations.

Following these findings, the CRA will examine the costs and benefits associated with the current registration method to ensure that our approach takes full advantage of technology, existing data, and verification/validation processes.

Details can be found on the CRA Web site at:
www.cra-arc.gc.ca/gncy/ntrnl/2013/bsnss-rgstrtn-eng.html#h2

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
The CRA supports the timely and accurate processing of tax, information, and benefit returns, and the processing of payments	Number of successful log-ins to My Account	Upward trend	4,690,737	5,837,173	6,705,022
	Number of successful log-ins to My Business Account	Upward trend	1,240,702	1,913,141	2,664,791
	Represent a Client – Individual accounts accessed	Upward trend	3,193,919	4,522,971	5,547,661
	Represent a Client – Business accounts accessed	Upward trend	1,162,177	1,850,268	2,662,741
	Percentage of payments made electronically	Upward trend	29.7%	33.4%	36.7%
	Percentage of individuals who file electronically	Upward trend	64%[1]	65%[1]	76%
	Percentage of corporations that file electronically	Upward trend	46.8%	61.4%	69.9%
	Percentage of GST/HST returns filed electronically	Upward trend	41.3%	57.5%	64.3%
Individuals, businesses and registrants are provided timely and accurate tax assessment notices and tax payment processing	Process Excise Tax, Duty, Air Travellers Security Charge and Softwood Lumber returns within 90 days of receipt	95%	97.6%	98.2%	98.4%
	Process GST/HST returns within 30 days	95%	90.3%	91%	93.8%
	Process T2 corporate income tax returns within 60 days	90%	94.5%	95.2%	95.2%
	Respond to T1 taxpayer-requested adjustments within an average of 8 weeks	100%	7.2 weeks	7 weeks	7 weeks
	Respond to T1 taxpayer-requested adjustments received via the Internet within an average of 2 weeks	100%	1.8 weeks	1.8 weeks	2 weeks
	Process paper T1 individual income tax returns within an average of 4 to 6 weeks	100%	3.9 weeks	3.9 weeks	4.3 weeks
	Process electronic (EFILE, TELEFILE, NETFILE) T1 individual income tax returns within an average of 2 weeks	100%	1.7 weeks	1.6 weeks	1.6 weeks
	Processing T3 trust returns within 4 months	95%	98.5%	98.7%	98.7%
Individual taxfilers receive timely and accurate assessment notices	Percentage of the 5 service standards pertaining to individual and trust returns (T1 and T3) activities which have met targeted performance standards	100%	100%	100%	100%
	Percentage of individual (T1) returns processed accurately	98%	98.8%	98.8%	99%
	Individual (T1) returns received on time processed by mid-June	100%	100%	100%	100%
Validation activities detect and address non-compliance by individuals with the reporting requirements of the acts	Percentage of validation reviews of individual returns (T1) completed compared to planned	100%	n/a	n/a	104%
	Ratio of average dollar value assessed for targeted vs random reviews	Minimum ratio of 2:1	n/a	n/a	2.6:1
Remittance of payments by individuals and businesses to the Receiver General are processed on time	Percentage of payments by individuals and businesses to the Receiver General deposited within 24 hours of receipt	96%	99.6%	99.3%	99.4%

[1] Results have been re-stated as they are now calculated based on the tax-filing season February 1 to August 31 versus April 1 to March 31.

n/a: This is a new indicator for 2012-2013. Prior year results are not available.

We answered over **23 million** calls through agent and automated services

Our YouTube videos were viewed more than **736,000** times

We processed **87,766** registered charity information returns

[**taxpayer** and **business assistance**]

[program **description**]

As the administrator of Canada's self-assessment tax system, the CRA has a responsibility to provide taxpayers with accurate and timely information so that they can comply with Canada's tax laws. To achieve this, we maintain a Web site that contains general information about our programs. We also use videos and webinars and interact with Canadians on social media. When taxpayers require additional support, we offer expertise and guidance through our telephone services, technical interpretation and advance income tax rulings service. We also administer and monitor charities and registered plans to ensure that they are managed in accordance with existing legislation.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
543,025	583,128	467,240	**453,280**	129,848

Sub-program	Planned spending[1]	Actual spending[2]	Difference
Taxpayers services – enquiries	159,129	**174,462**	(15,333)
Taxpayers services – information products	9,303	**11,481**	(2,178)
Policy, rulings and interpretations[3]	364,516	**221,511**	143,005
Registered plans	16,001	**16,191**	(190)
Charities	29,804	**25,372**	4,432
Charities – Public safety and anti-terrorism	4,375	**4,264**	111
Total	**583,128**	**453,280**	**129,848**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

[3] Includes statutory payments related to Canada/US softwood lumber agreement (planned spending is $280 million and actual spending is $136.9 million, resulting in a difference of $143.1 million).

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
Taxpayers services – enquiries	2,448	**2,478**	(30)
Taxpayers services – information products	133	**148**	(15)
Policy, rulings and interpretations	1,058	**985**	73
Registered plans	174	**153**	21
Charities	292	**256**	36
Charities – Public safety and anti-terrorism	36	**37**	(1)
Total	**4,141**	**4,057**	**84**

Numbers may not add due to rounding.

[sub-program **description**]

Taxpayer services – enquiries	The Taxpayer Services – Enquiries Program develops and maintains information services that assist taxpayers in voluntarily complying with Canada's tax laws. It provides taxpayers with access to timely and accurate responses to their telephone and written tax enquiries through our Web site as well as other targeted services.
Taxpayers services – information products	The Taxpayers Services – Information Products Program is responsible for providing tax information on the CRA's Web site and information products like pamphlets, brochures, and tax packages.
Policy, rulings and interpretations	The Policy, Rulings, and Interpretations Program is responsible for the official CRA positions on the interpretation of the acts administered by the CRA. It clarifies tax issues that taxpayers, registrants, and tax intermediaries may be facing by explaining how legislation applies to specific situations and informs them on tax and CPP/EI matters by issuing rulings, interpretations, technical publications, and newsletters. The program provides early certainty to taxpayers through advance, binding rulings and non-binding interpretations. The program develops legislative policy in collaboration with the Department of Finance and offers specialized legislative policy and administrative services to other Canadian government organizations.
Registered plans	The Registered Plans Program is responsible for all activities related to the provisions of the *Income Tax Act* for deferred income and savings plans. It provides information through its Web page and outreach activities, and by assisting taxpayers through its telephone enquiry line and written communication services. It registers, audits, and approves contributions to these plans to ensure compliance.
Charities	The Charities Program is responsible for administering the national registration program for charities, registered Canadian amateur athletic associations, and registered national arts service organizations. The program is responsible for activities that span across the full spectrum of the compliance continuum including registration, communications and outreach, processing and examination, audit and enforcement, and policy and technical guidance.
Charities – Public safety and anti-terrorism	The Charities – Public Safety and Anti-Terrorism Program protects the integrity of the registration system for charities under Canada's *Income Tax Act* by screening applications and monitoring registered charities for the risk of terrorist involvement.

[performance **analysis** and **lessons** learned]

[providing **general information**]

The CRA provides information to taxpayers so that they can comply more easily with Canada's tax laws. We encourage compliance by making sure that taxpayers have access to the information they need to meet their tax obligations. To do so, we interact with taxpayers and benefit recipients through different communication channels to raise awareness of our existing programs and services and increase their usage. We monitor the use of services to tell us where there are gaps and prioritize service enhancements accordingly.

[the CRA's **Web site**]

The CRA's Web site is our primary channel for providing general information. Our Web site is structured around four main categories: individuals and families, businesses, charities and giving, and representatives. It covers a variety of topics, and visitors are just a few clicks away from downloading most of the forms or publications they need.

We update our Web pages regularly to add new content or to improve navigation and clarity of information. We use Web analytics to help us understand how Canadians use our Web site and to assess and improve its effectiveness. In 2012-2013, we improved how information is presented in the GST/HST section of the Web site to make it easier for visitors to find what they need. We also created www.cra.gc.ca/businessonline, a Web page that contains all e-services available for businesses, conveniently grouped by tasks that businesses perform relative to their tax information.

Our Web site has been upgraded to comply with the new Government of Canada Standard on Web Usability. This standard allows for a more consistent, user-friendly experience on Government of Canada Web sites. The CRA provides a convenient, secure online environment so that Canadians can find information and complete transactions with us.

Key results:

- We received 105,929,746 visits to our Web site, a 21% increase over 2011-2012
- 22,967,983 forms and publications were downloaded

[**webinars**, **videos**, and **social** media]

We communicate information to taxpayers through information sessions and videos. We also use webinars, which are interactive presentations conducted over the internet. While information sessions allow us to have a more engaging dialogue with participants, webinars are convenient and easy to use.

These contain up-to-date information about CRA's programs and initiatives and help taxpayers learn about their tax obligations and the benefits to which they may be entitled. Videos posted this year contain information on topics like Canadian students and taxes, GST/HST for small businesses, and Charities Quick View, a new display that provides a summary of a registered charity's activities, revenues, and expenditures.

Key results:

- We delivered more than 2,474 face-to-face information sessions to approximately 86,703 participants
- We delivered more than 152 webinars to approximately 10,525 participants
- We posted 11 videos on our Web site

Our goal is to engage Canadians in a variety of ways, and social media helps us reach that goal. We recognize that many Canadians prefer to watch videos on YouTube because it is more convenient for them. Our YouTube channel contains videos that cover many topics of interest. We use YouTube to promote new tax credits and useful services like direct deposit, which allows an individual to receive income tax refunds and benefit payments directly in their bank account, or to provide step-by-step instructions to make a payment to the CRA.

We are active on Twitter so that we can inform our followers about the CRA's programs and services, and offer information that Canadians may need to fulfil their obligations as taxpayers and receive benefits to which they may be entitled. The CRA also answers questions of a general nature on Twitter by providing links to information available through the Web site. Our tweets are often re-tweeted to a wider audience, which helps us send our messages to a greater number of Canadians.

Key results:

- We posted 44 videos on YouTube
- Our YouTube videos were viewed more than 736,000 times, compared to 36,500 in 2011-2012[1]
- Our Twitter followers increased to 16,336, a fivefold increase over 2011-2012

[enquiries and complex requests]

Taxpayers and benefit recipients who want to understand how tax laws apply to their specific circumstances can rely on the knowledge and expertise of our call centre agents. Recognizing that taxpayers need to manage their tax affairs with greater confidence and certainty, we also write technical publications and provide technical interpretations and rulings for income tax and GST/HST.

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[1] The vast majority of the video "views" were generated as part of the paid filing season advertising campaign and do not represent unique visits to our YouTube channel.

this year there were
105,929,746 visits
to our Web site
that's up **21%**

[**telephone** services]

Taxpayers can call the CRA when they want to know how the information on the Web site applies to their specific circumstances or when they need help. We have dedicated telephone lines for general and account-specific enquiries, benefit payments, GST/HST credit, international tax and non-resident enquiries, and payment arrangements.

We answered over 23 million calls through agent and automated services and carried out several improvements to our telephone services during the year:

- On January 21, 2013, "Agent ID" was launched for the CRA's business enquiries and GST/HST rulings telephone services. CRA agents now provide businesses with their first name, an agent identification number, and a regional suffix at the beginning of each call. Agent ID makes it easier for business owners to provide feedback on CRA services.
- We ran a pilot project to strengthen our national telephone quality assurance program. This program helps us identify local and national training needs and improve the quality of the service we provide.
- We integrated the telephone service for international tax and non-resident enquiries into the national telephone network. This allowed us to increase the hours of service offered to non-resident callers.
- We expanded the functionality of our Interactive Voice Response and our automated Tax Information Phone Service (TIPS) systems. Callers can now conveniently order an income and deduction printout or a remittance voucher without having to speak with an agent.

[**technical** interpretation and early **certainty**]

In March 2013, the CRA released its first set of income tax folios, a new technical information publication that facilitates Web navigation by making use of hyperlinks. This new publication will eventually replace interpretation bulletins and income tax technical news.

We also provide, in writing, non-binding income tax and GST/HST technical interpretations of specific provisions of tax law. Taxpayers can request an advance income tax or GST/HST ruling for a technical interpretation that relates to a specific transaction considered. The CRA also provides Canada Pension Plan/Employment Insurance (CPP/EI) and Pensionable and Insurable Earnings Review rulings for programs that fall under the *Canada Pension Plan* and *Employment Insurance Act*, which it jointly administers with Human Resources and Skills Development Canada.

Tax rulings will be regarded as binding upon the CRA if the facts presented in the request were accurately stated and the transaction was carried out as set out in the request. We give tax rulings and technical interpretations to taxpayers to help them manage their tax affairs with confidence in Canada and across international borders. Our goal is to encourage compliance with Canada's tax laws through early certainty.

Meeting our target for advance income tax rulings has proved challenging in recent years. In 2012-2013, we made the decision to devote time and effort to developing the new income tax folios. We believe income tax folios are a long-term investment that will ultimately help us meet our service standard for advance income tax rulings.

Given the significance of the rulings to proposed business transactions, the CRA requires time to properly analyze each transaction and provide rulings that respond to the expectations of our clients. As a result, our service standard for advance income tax rulings has been adjusted to reflect a more realistic schedule.

We met our service standard for providing GST/HST rulings and interpretations.

Key results:

- We provided 2,897 income tax technical interpretations
- 89% of CPP/EI rulings were completed within 90 days of receipt
- We completed 4,075 GST/HST rulings and interpretations
- 81% of field GST/HST rulings and technical interpretations were answered to within 45 days of receipt
- We answered 120,414 technical GST/HST telephone enquiries
- We answered to 97% of technical GST/HST calls in the telephone enquiries queue within 2 minutes
- We provided 175 advance income tax rulings

Delivering services more effectively

While our service delivery model is evolving, Canadians who want to use our traditional services will not be left behind. They will continue to be able to talk to one of our well-trained call centre agents, make an appointment to receive in-person help at one of our tax services offices, and order printed copies of their income tax and benefit packages.

[**registered** plans]

Registered plans are one of the most effective savings and retirement tools available to Canadians. In 2011, Canadians contributed more than $34 billion to their registered retirement savings plans and held tax-free savings accounts whose total value exceeded $62 billion. Registered plans play an undeniable role in securing income for future years. We have a responsibility to ensure that registered plans fulfil their mandate according to existing legislation.

We register and monitor deferred income and savings plans like employee pension plans, retirement savings plans, education savings plans, disability savings plans, and tax-free savings accounts. We ensure the integrity of the deferred income and savings plans sector in Canada by promoting compliance with existing legislation and advising the retirement savings industry on areas that have a higher risk of non-compliance.

Key results:

- We reviewed 90% of the applications to register pension plans within 180 days
- We monitored 22,657 registered pension plans
- We responded to 98% of written enquiries within 60 days
- We conducted 585 audits of registered plans

[**charities**]

Charities are well placed to use their local knowledge, expertise, and relationships to help communities across Canada and in other countries. They play an essential role by providing support and expertise in fields like healthcare, education, and the environment.

Taxpayers reported donating more than $8.9 billion to charities on their 2011 income tax and benefit returns. By contributing financially to organizations and groups that support important causes, donors want to contribute to the well-being of their fellow citizens or support values in which they believe.

The CRA administers the provisions of the *Income Tax Act* that relate to registered charities. Registered charities are exempt from income tax and can issue official donation receipts for gifts they receive. Donors can use those receipts to lower their taxes.

Registered charities must only engage in allowable activities, file annual information returns, and keep adequate books and records to keep their registered status. In addition, they must adopt acceptable fundraising practices. To these ends, the CRA conducts audits to ensure that registered charities remain compliant with Canada's tax laws. We can impose financial penalties and suspensions and sometimes revoke the registered status in cases of serious non-compliance.

Key results:

- We processed 87,766 registered charity information returns
- We reviewed and responded to 98% of regular applications for registration within six months
- We responded to 86.3% of calls in the telephone enquiries queue within two minutes
- We audited 799 charities
- We revoked the registered status of 1,512 charities (741 voluntary revocations, 713 for delinquency, 32 for cause, 26 for loss of corporate status)

The CRA released its first set of **income tax folios,** a new technical information publication that **facilitates Web navigation** by making use of hyperlinks

[conclusion]

We offer Canadians new choices in how they can find information about our programs and how they interact with us. They can go to our Web site, send us tweets, view our videos, and sign up for our information sessions. While online communication technologies offer us more ways to provide information to Canadians, we will continue to ensure that the information we provide through all communication channels is clear and concise.

An online survey conducted by PricewaterhouseCoopers in 2013 revealed that convenience is an essential feature that Canadians expect from government service delivery. The way the CRA provides information and services to Canadians must match their service expectations.

Intelligent compliance management starts with a service delivery model that emphasizes early intervention to minimize errors. This is done partly by simplifying access to information and services. The result is fewer but more efficient interactions between the CRA and taxpayers. To that end, we will continue to find better ways to provide the right information using the right channel at the right time.

GST/HST rulings provide greater tax certainty

Our GST/HST Rulings Program operates in a unique environment. The fact that GST/HST is a real-time, transaction-based tax often requires the CRA to establish its interpretative position before the transaction takes place. In addition, the GST/HST rulings program must react swiftly to any GST/HST legislative changes, which often become effective immediately. This means that technical information (technical interpretation bulletins, info sheets, GST/HST memoranda, etc.) must be available on the CRA Web site in advance of the effective date of new legislation. With the complexity of business transactions and the potential for significant tax assessments, businesses are recognizing how this service can help them mitigate risk. The importance of this timely, accurate, and consistent service cannot be overstated.

Our income tax and GST/HST rulings programs support voluntary compliance and helps individuals and businesses manage their tax affairs with greater certainty.

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
The CRA provides accurate and timely information products and services to taxpayers and businesses	Individual enquiries – telephone service level – Respond to calls in the agent queue within two minutes	80%	81.8%	80.1%	82%
	Business enquiries – telephone service level – Respond to calls in the agent queue within two minutes	80%	84.1%	81.2%	82%
	Percentage of individual callers who reach our telephone service	85%	91.5%	90.7%	90%
	Percentage of business callers who reach our telephone service	85%	92.4%	90.2%	90%
Taxpayers and businesses have access to the information and services they require to voluntarily comply with tax laws	Visits to taxpayer services Web-based information products pages	Upward trend	38,368,640	39,543,640	48,844,974
	Percentage of accurately updated internal reference materials for taxpayer services and charities agents	100%	100%	100%	100%
Compliance with applicable legislation by organizations and businesses administering and/or producing registered plans, charities, and excise dutiable products is improved	Percentage of charities, registered plans and commodity audits and activities completed compared to planned	90%	107%	95.9%	106%

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
Taxpayers and businesses have access to timely information products	Percentage of information products provided in print and on the Web site on time as per work plans to address taxpayer information needs	100%	n/a	n/a	93%
Registered plan administrators and their agents receive timely service in response to applications	Percentage of registered plan applications reviewed within established timeframes	85%	94.4%	83.9%	90%
Non-compliance by registered plan administrators and their agents with legislation and regulations pertaining to registered plans is detected and addressed	Percentage of registered plan audits completed compared to planned	100%	133%	93.6%	130.3%
Taxpayers and businesses receive timely rulings and interpretations under the *Income Tax Act* and various other federal legislation	Respond to written GST/HST rulings and interpretations within 45 working days	80%	46.5%	41.8%	81%
	Issue technical interpretations within 90 business days of receipt of all essential information from the client	85%	n/a[1]	n/a[1]	83%
	Issue advance income tax rulings within 90 business days of receipt of all essential information from the client	85%	n/a[1]	n/a[1]	74%
All stamped tobacco products are excise duty paid	All legally imported and domestically manufactured tobacco products destined for the duty-paid market are stamped	100%	n/a	n/a	100%
Non-compliance with the *Excise Act* and the *Excise Act, 2001* with respect to dutiable products is detected and addressed	Percentage of excise regulatory reviews and excise compliance activities completed compared to planned	90%	n/a	n/a	95.5%
Enhanced service to registered charities and applicants for charitable status	Percentage of charities calls responded to within two minutes	80%	88.5%	84.1%	86.3%
	Percentage of charitable registration applications thoroughly reviewed and responded to within established timeframes	80%	91.8%	88.6%	96%
Compliance in the charitable sector is improved	Trend in the number of charities participating in abusive tax shelter schemes	Downward trend	n/a	n/a	20[2]
	Trend in the number of charities that file their annual information return on time	Upward trend	70,298	67,649	73,983
	Trend in the number of charities that are revoked for failure to file	Downward trend	635	1104	713

[1] Revised standard and target for 2012-2013. Results from the previous years' are no-longer comparable to the present measure.

[2] We audited 100% of all charities known to be participating in abusive tax shelter schemes.

n/a: This is a new indicator for 2012-2013. Prior year results are not available.

Almost **95%** of individuals who owed taxes paid them on time

We resolved over **$37** billion in tax debt

[accounts receivable and returns compliance]

[program description]

The Collections and Returns Compliance programs are committed to protecting the integrity of Canada's tax laws and supporting compliance with tax obligations by identifying, addressing, and preventing non-compliance, as well as ensuring that tax debt is resolved in a timely basis. We undertake a range of activities to promote and enforce compliance with Canada's tax laws for filing, withholding, registering, and debt obligations, including amounts collected or withheld in trust for the Government of Canada. This is achieved through education campaigns, automated strategies, call centres, and field operations. These activities are carried out on behalf of the federal, provincial, territorial, and certain First Nations governments.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
432,277	495,786	541,527	**512,218**	(16,432)

Sub-program	Planned spending[1]	Actual spending[2]	Difference
Trust accounts compliance	87,462	**89,545**	(2,083)
Non-filer/non-registrant compliance	62,215	**64,360**	(2,145)
Accounts receivable – tax programs	292,890	**308,459**	(15,569)
Accounts receivable – government programs	19,434	**18,061**	1,373
Automated operations and call centre	33,785	**31,793**	1,992
Total	**495,786**	**512,218**	**(16,432)**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
Trust accounts compliance	1,833	**1,786**	47
Non-filer/non-registrant compliance	912	**893**	20
Accounts receivable – tax programs	3,995	**4,153**	(158)
Accounts receivable – government programs	485	**392**	93
Automated operations and call centre	373	**395**	(22)
Total	**7,599**	**7,619**	**(20)**

Numbers may not add due to rounding.

[sub-program **description**]

Trust accounts – compliance	The Trust Accounts – Compliance Program protects the revenue streams that represent the most significant part of Canada's revenue base by facilitating and enforcing registration, withholding, remitting, reporting, and filing obligations for payroll deductions, GST/HST, other levies, and non-resident taxes. We influence compliance attitudes through targeted strategies and address non-compliance through automated systems, call centres, and field operations.
Non-filer/non-registrant – compliance	The Non-filer/Non-Registrant – Compliance Program facilitates and enforces filing by individuals, businesses and trusts. We use a risk-based approach that influences filing behaviour and address non-compliance through targeted strategies, automated systems, call centres, and field operations.
Accounts receivable – tax programs	The accounts receivable – tax programs is responsible for the collection of tax debts on behalf of the federal, provincial and territorial governments, as well as other government agencies.
Accounts receivable – government programs	The accounts receivable – government programs is responsible for the collection of non-tax debts where the responsibility for the collection function has been transferred to the Canada Revenue Agency from other organizations.
Automated operations and call centre	The Automated Operations and Call Centre Program is responsible for preventing non-compliance with filing obligations and remitting requirements for taxpayers and GST/HST registrants. This is achieved by resolving a high volume of low-risk accounts primarily through automated letters, phone calls, and reminders.

[performance **summary** and **lessons** learned]

[**addressing** non-compliance]

The CRA is in the business of protecting Canada's revenue base. We maintain the integrity and sustainability of our self-assessment tax system by ensuring that individuals and corporations file and register when required and pay the amounts they owe. The effective identification, deterrence and correction of payment, filing and registration non-compliance is critical to maintaining Canadians' trust and confidence in our tax system.

Collecting overdue amounts and returns in a timely and efficient fashion is a key element in our strategy to combat non-compliance. When money is owed but not paid or when a return is due but not filed, the CRA reviews the account to determine the risk of loss the file represents and takes progressive action to resolve the non-compliance. Depending on the nature of the file, the action taken can vary. Compliance action can be something as simple as the issuance of a letter to remind a taxpayer of their payment obligations, or at the other end of the compliance spectrum, it could mean prosecution through the courts to enforce filing requirements. In all cases, the objective is the same, to ensure that the right level of compliance intervention is applied at the right time and by the most cost-effective and appropriate means possible.

[**trust accounts** compliance]

In 2012-2013, $236 billion was collected through source deductions. The taxes collected through source deductions make up a significant part of Canada's tax revenue base. Every year, millions of employees have income tax deducted from their pay cheques to fund federal, provincial, and territorial government programs and infrastructure. In addition, amounts are deducted and contributed to the Canada Pension Plan (CPP) and employment insurance (EI) accounts of individual employees. Self-funded programs like the CPP and EI help to protect families and workers against the loss of income due to retirement, disability, and death, or in the case of EI, provide short term support to those who have lost their job. Employers are responsible for the deduction and remittance of these amounts when they prepare their employee payroll. They are also responsible for remitting the employer's portion of CPP contributions and EI premiums.

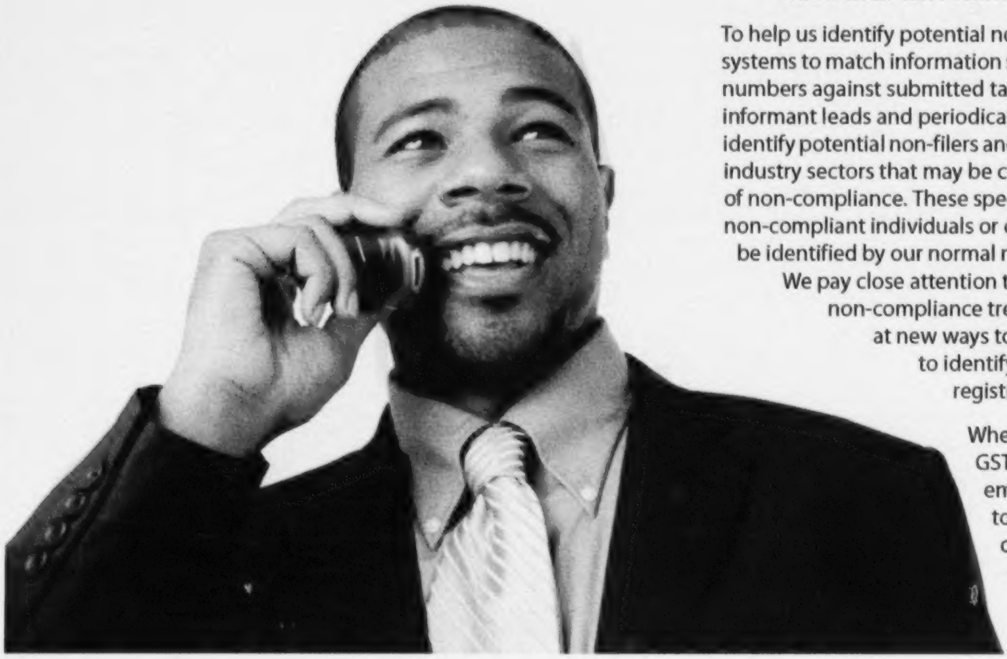
Our source deduction system functions well because Canadians trust that the income tax being deducted and the amounts held in trust for contribution to their CPP and EI accounts are properly calculated and remitted. Our role as administrators of this system is to ensure the integrity of Canada's source deduction system.

We support compliance by working with employers to make sure they understand their obligations. Our webinar series, *Payroll Information for New Small Business*, is an example of how we are using innovative techniques to help employers meet their obligations. These webinars provide answers to the most commonly asked questions by new small businesses. The goal is to make sure that employers understand their responsibilities. The information and support we provide to new businesses allows them to get it right from the start and helps to prevent a pattern of non-compliance from developing. However, when source deduction non-compliance is suspected or identified, we take corrective action by examining employer's books and records to ensure that the correct amounts are being deducted and remitted.

We are taking steps to improve our knowledge and understanding of employer needs at critical points in their business life cycle. One way we are doing this is by improving our system that tracks employer obligations to withhold and remit payroll deductions. The PAYDAC Renewal and Migration Project is a multi-year initiative that will allow us to better manage payroll compliance activities and provide a more personalized delivery of services to employers. This project will improve our capacity to gather the data needed to better understand and detect non-compliance behaviour.

Key results:

- We performed over 480,000 payroll account reviews
- Our trust examiners completed nearly 48,000 payroll account examinations
- We completed 847 employer compliance audits
- We identified $1.8 billion in non-compliance



[non-**filer**/non-**registrant**]

Non-filers are individuals, corporations, or trusts that do not file a tax return as required by legislation. Non-registrants are individuals and business entities that do not register for the GST/HST when required.

The vast majority of individuals and businesses file tax returns when required, register for the GST/HST when necessary, and pay their taxes on time without our intervention. This year, we saw a 1% increase in the overall percentage of taxpayers over the age of 18 who filed their income tax returns on time. While not everyone is required by law to file a tax return, high rates of voluntary compliance help to ensure that citizens receive the benefits to which they are entitled and contribute to the sustainability of our self-assessment system by lowering the cost of enforcing filing compliance.

Key results:

- 92.1% of individuals over the age of 18 filed an income tax return on time
- 95.3% of Canadian businesses have a GST/HST account
- Over 3.3 million businesses and individuals are registered for a GST/HST account
- 85.2% of corporations with taxable income filed their tax return on time

To help us identify potential non-filers, we use automated systems to match information slips and corporate business numbers against submitted tax returns. We also use informant leads and periodically run special projects to identify potential non-filers and non-registrants working in industry sectors that may be characterized by high levels of non-compliance. These special projects help us find non-compliant individuals or corporations who may not be identified by our normal risk assessment processes. We pay close attention to existing and emerging non-compliance trends and are always looking at new ways to strengthen our ability to identify non-filers and non-registrants.

When we identify non-filers and GST/HST non-registrants, we employ a number of strategies to promote and enforce compliance. We take a progressive approach to enforcement. In those rare cases where we are not successful in persuading taxpayers to respect their filing and registration obligations, we sometimes issue legal requirements to register or file and enforce compliance through prosecution action.

Key results:

- We received nearly 618,000 income tax and information returns as a result of actions undertaken by the Non-Filer/Non-Registrant Compliance Program
- The Non-Filer/Non-Registrant compliance Program identified over $2.9 billion in non-compliance

We are improving our workload management in the non-filer and non-registrant program through the use of debt management call centre agents to resolve low-risk, low-complexity files that do not require an in-depth review or specialized contact. The use of call centre agents allows us to better balance our workloads and process files that can come from any region in the country. This new approach is a good example of how we are creating efficiencies by taking advantage of existing call centre facilities to more effectively manage our non-filer workload.

[GST/HST non-filers]

GST/HST registrants are responsible for collecting GST/HST on the taxable supplies of goods and services they provide. The CRA has a dedicated GST/HST Delinquent Filer Program that uses a variety of compliance approaches. This includes the use of automated reminder letters and telephone contact by call centre agents to establish filing arrangements. Businesses who are GST/HST registrants are required to collect and remit amounts to the Crown. Because they play such an important role in the collection of government revenue, the CRA places a high priority on ensuring that GST/HST registrants file when required and remit on time.

This year, we continued to pilot an automated reminder service that sends a series of calls to new employers and GST/HST registrants to remind them of their filing obligations. We believe that this convenient service helps to support and encourage compliance.

Key result:

- We resolved over 336,000 GST/HST files through our GST/HST Delinquent Filer Program

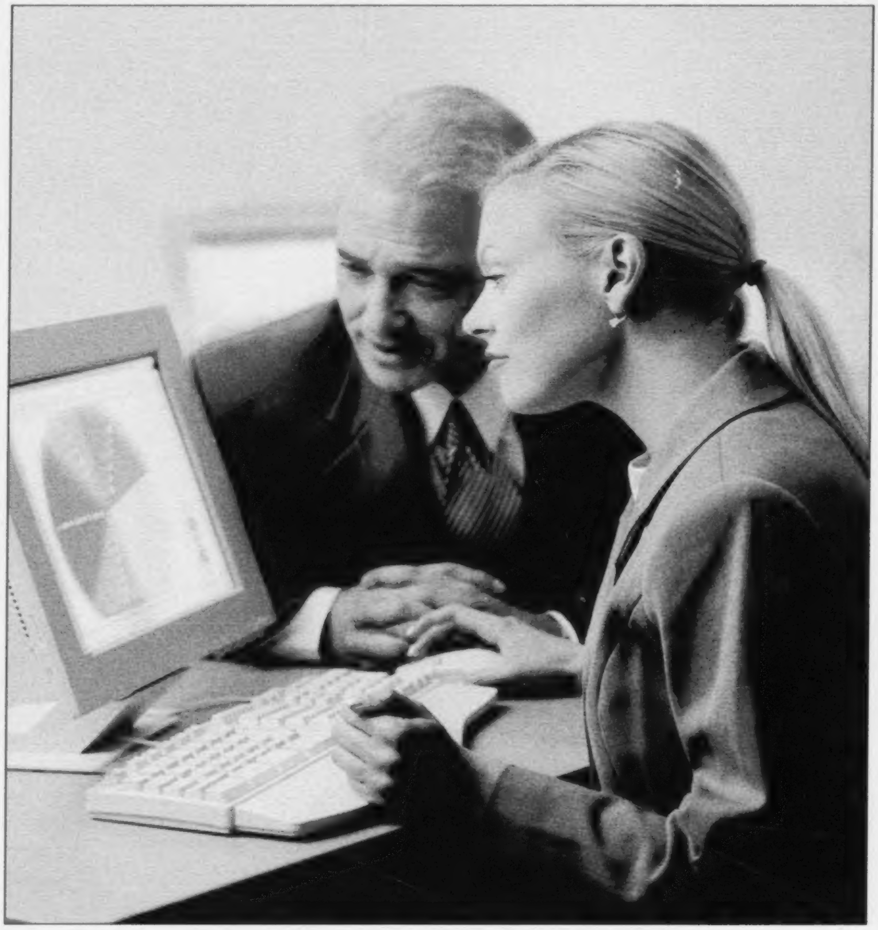
[payment of **tax debt**]

The effective resolution of outstanding tax debt is a critical element in protecting Canada's tax base and ensuring that government has the revenues needed to support social programs and address priorities. In 2012-2013, the CRA resolved $37.3 billion dollars in outstanding tax debt on behalf of federal, provincial, and territorial governments.

Our ability to successfully collect debt often depends on taking decisive action in a timely manner. The longer the debt remains outstanding, the more difficult and expensive it can be to resolve. The CRA is working to improve its risk-based debt management strategies and create more effective collection processes that deliver the best collections outcome possible.

Key results:

- 94.5% of individuals over the age of 18 who owed taxes paid them on time
- We resolved $20.9 billion in tax debt through our call centre and by using automated strategies
- We resolved $16.4 billion in outstanding tax debt through our tax services offices



We take a progressive approach to debt collection, and we determine the level of intervention used by assessing the risk of loss associated with the debt. Examples of compliance intervention include:

- automated reminder messages and letters to pay outstanding amounts;
- telephone contact by call centre agents to make payment arrangements;
- formal collection actions through the Accounts Receivable National Inventory; and
- collection actions by senior collection officers from one of our tax services offices.

Risk-scoring models help us to determine which files present the highest potential for tax debt recovery. The efficient resolution of files depends on our ability to quickly direct accounts to the most appropriate compliance action. We are investing resources in the analysis of non-compliance behaviour and using these findings to challenge the assumptions we used to develop our risk models and the business rules used to control workloads.

The automated distribution of workload based on risk and complexity is allowing us to achieve greater efficiencies by processing higher volumes of files that can originate from any region in the country. In this past year, our Debt Management Call Centre (DMCC) used the Automated Dialer Announcement Device to contact new GST/HST registrants and employers to remind them of the dates that their returns and payments are due. We plan to increase the use of dialer announcement technology to support payment compliance.

Accounts that cannot be resolved through DMCC contact are forwarded to our Accounts Receivable National Inventory to be worked by a TSO collections officer. The use of a national inventory approach allows collections officers from any tax services office in the country to work on any account in the national inventory, which leads to a more balanced TSO workload distribution. The most challenging collection accounts are addressed by senior collections officers who sometimes work in collaboration with the Department of Justice to resolve accounts.

In 2012-2013, our tax services offices resolved 90% of the total net dollar value of debt received during the fiscal year. However, because of our focus on aged debt, the CRA did not meet its target of 60% for resolving new tax debt in the year of intake. A new legislated collections limitation period required the CRA to make a strategic decision to focus more resources on resolving debt that had been outstanding for several years. As a result, significant progress was made in resolving these aged accounts. The percentage of aged accounts more than five years old was reduced from 16.4% of total inventory down to 14.4%. This should significantly reduce the likelihood of unrecoverable tax debt in the future. The CRA will continue to focus its efforts on collecting outstanding debts in a timely manner and monitoring debt aging trends closely.

Key results:

- $18.3 billion in accounts receivable was referred to TSOs for collection action
- 51% of new tax debt received in the TSOs was resolved in the year of intake
- The percentage of accounts with tax debt over five years of age decreased from 16.4% to 14.4%, well within our target of 18%

[payment of government programs **non-tax debt**]

The CRA collects a number of non-tax debts on behalf of the federal government. Examples of non-tax debt collection include: defaulted Canada student loans, employment insurance overpayments, and other debts on behalf of Human Resources and Skills Development Canada (HRSDC). Since the transfer of the functions and resources of collections activities from HRSDC to the CRA, we have managed to improve collection productivity, and overall recoveries have climbed.

We are providing support to those debtors who are willing to work with us to reduce and resolve their outstanding debt. However, we take firm action against those not willing to work with us to address their obligations. We believe this measured approach of working with debtors and taking firm action when necessary has contributed to the increased recoveries seen in 2012-2013.

Key results:

- The CRA recovered $600 million of the HRSDC outstanding debt portfolio, exceeding the 2012-2013 target by $17 million, or 3%.

[conclusion]

The CRA understands that sometimes non-compliance is the result of unintended errors, misunderstandings, or a lack of information. Our research is providing insights into the factors that contribute to this type of non-compliance and we are using these findings to reduce the compliance burden and prevent non-compliance from occurring in the first place.

We are making steady progress in our efforts to better understand non-compliant behaviour and refine our risk assessment strategies. These findings are being used to rationalize and improve the way we address and distribute our workloads. Innovations such as our Accounts Receivable National Inventory are helping us to increase efficiencies. Our goal is to ensure that we are initiating the most appropriate compliance action, at the right time to deliver the best possible compliance outcome at the lowest cost possible. A recent International Tax Benchmarking study, conducted jointly by Her Majesty's Revenue and Customs (United Kingdom) and Capgemini Consulting, found that Canada had the second lowest cost of collecting a dollar of debt among the ten countries surveyed.

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
Identified non-compliance					
Non-filers and GST/HST non-registrants are identified and addressed through compliance actions	T1/T2/T3 non-filers and GST/HST non-registrants ($ billion)	$2.6	$2.8	$2.6	$2.9
	Employer/Payroll/GST/HST Reviews, Exams and Compliance Audits ($ billion)	$1.6	$1.6	$1.7	$1.8
Tax debt and government program debt is resolved on a timely basis and is within targeted levels	Percentage of accounts receivable dollars resolved in the fiscal year compared to the dollar value of accounts receivable (intake) received in the fiscal year	90%	n/a	n/a	93.5%
Ensure compliance with filing and remitting requirements as they relate to the *Income Tax Act, Canada Pension Plan, Employment Insurance Act* and the *Excise Tax Act*	Trend in the total dollar value of assessments related to employer, GST/HST and part XIII related compliance activities ($ billion)	0% change compared to baseline year	Baseline year	(8.15%)	10.2%
Ensure compliance of individuals, corporations and trusts with filing and registration requirements as they relate to the *Income Tax Act, Excise Tax Act* and other legislation	Trend in the dollar value of estimated assessments related to GST/HST non-registration activities and non-filer activities for individuals, trusts, and corporations resolved at the TC/TSO level ($ billion)	0% change as compared to baseline year	Baseline year	(2.8%)	13.1%
Tax accounts receivable assigned to the tax services offices are collected and resolved, on behalf of the federal, provincial and territorial governments, on a timely basis and within targeted levels	Percentage of tax services offices tax intake (dollars) resolved in the year of intake	60%	64.4%	61.6%	51.2%
	Percentage of tax services offices tax accounts receivable aged inventory (>5 years) compared to closing tax services offices inventory	18%	16.9%	16.4%	14.4%
	Percentage of the dollar value of tax accounts receivable resolved at the tax services offices in the fiscal year compared to forecasted	100%	n/a	n/a	96.0%
Government programs accounts receivables are collected and resolved on behalf of the federal, provincial, and territorial governments on a timely basis and within targeted levels	Percentage of the dollar value of government programs accounts receivable resolved in the fiscal year compared to forecasted	100%	110%	105%	104%
Accounts resolved through high volume/low cost interventions	Percentage of selected non-filer (individuals and corporations) accounts resolved in the fiscal year through automated operations and call centre	45%	n/a	n/a	34.5%
	Percentage of pre-tax services offices tax intake (dollars) resolved in the year of intake	76%	n/a	n/a	79.5%

n/a: This is a new indicator for 2012-2013. Prior year results are not available.

Our International and Large Business Program

identified over **$6 billion** in fiscal impact

We audited **10,822** underground economy files

[reporting **compliance**]

[program **description**]

The CRA's compliance activities seek to protect the integrity of the self-assessment tax system by identifying and addressing cases of non-compliance with Canada's tax laws. Our compliance interventions follow an escalating approach that moves from promoting compliance to enforcing it. We promote compliance by increasing taxpayers' understanding of their tax obligations through targeted outreach activities, client service, and education. We also undertake examinations, audits, and criminal investigations at the domestic and international level to ensure compliance with Canada's tax laws.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
985,132	1,074,885	1,233,061	**1,170,474**	(95,589)

Sub-program	Planned spending[1]	Actual spending[2]	Difference
International and large business	277,064	**321,382**	(44,318)
Small and medium enterprises	559,459	**588,672**	(29,213)
Audit professional services	69,171	**83,818**	(14,647)
Scientific research and experimental development	68,850	**75,385**	(6,535)
Criminal Investigations Program	72,828	**77,212**	(4,384)
Special Enforcement Program	20,369	**17,336**	3,033
Voluntary Disclosure Program	7,143	**6,670**	473
Total	**1,074,885**	**1,170,474**	**(95,589)**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
International and large business	2,419	**2,312**	107
Small and medium enterprises	5,183	**5,893**	(710)
Audit professional services	616	**605**	11
Scientific research and experimental development	625	**588**	37
Criminal Investigations Program	630	**564**	66
Special Enforcement Program	224	**161**	63
Voluntary Disclosure Program	81	**77**	4
Total	**9,778**	**10,200**	**(422)**

Numbers may not add due to rounding.

[sub-program **description**]

International and large business	The International and Large Business Program helps to ensure that Canada receives its share of taxes from international and large corporations with complex financial transactions. It enforces compliance with Canada's tax legislation by encouraging, assisting, and verifying compliance by large corporate tax filers. This is done through taxpayer consultations, education, legislative reviews, and enforcement measures.
Small and medium enterprises	The Small and Medium Enterprises Program enforces compliance of Canada's tax legislation by the small and medium businesses and non-resident taxpayers. It supports compliance through taxpayer consultations, education, and partnerships with stakeholders. The program uses risk management principles to apply a balanced approach to audit enforcement activities including associated client assistance, service and quality audits.
Scientific research and experimental development	The Scientific Research and Experimental Development and Film Tax Credit programs provide tax assistance and investment tax credits to Canadian businesses as an incentive to conduct qualifying industrial research and development activities and film or video production activities in Canada. These programs ensure that all claims are in accordance with the legislative requirements, tax laws, policies and procedures. They also ensure that the applicants are provided with information and timely services they need to access investment tax credits, and that the tax credits or cash refunds are delivered in a timely, consistent and predictable manner.
Criminal Investigations Program	The Criminal Investigations Program (CIP) enforces the Acts administered by the CRA by detecting and addressing tax evasion and fraud. CIP conducts investigations into suspected significant cases of fraudulent non-compliance and will recommend such cases for prosecution. To enhance public awareness and encourage voluntary compliance, CIP also publicizes the results of court convictions.
Voluntary Disclosure Program	The Voluntary Disclosures Program facilitates compliance with Canada's tax legislation by fostering and processing voluntary disclosures by non-compliant taxpayers and/or their representatives who wish to come forward and correct inaccurate or incomplete information.

[performance **analysis** and **lessons** learned]

[**detecting** and **addressing** reporting non-compliance]

Compliance with Canada's tax laws ensures the integrity of our self-assessment tax system. Every corporation, estate, trust, or individual who has to pay taxes is required by law to determine their taxes payable for the year and to file a tax return. Tax audits are conducted to verify that these amounts are accurately reported, and the tax payable is correctly calculated. The audit process ensures that Canada's tax system is fair, and that everyone pays their required share.

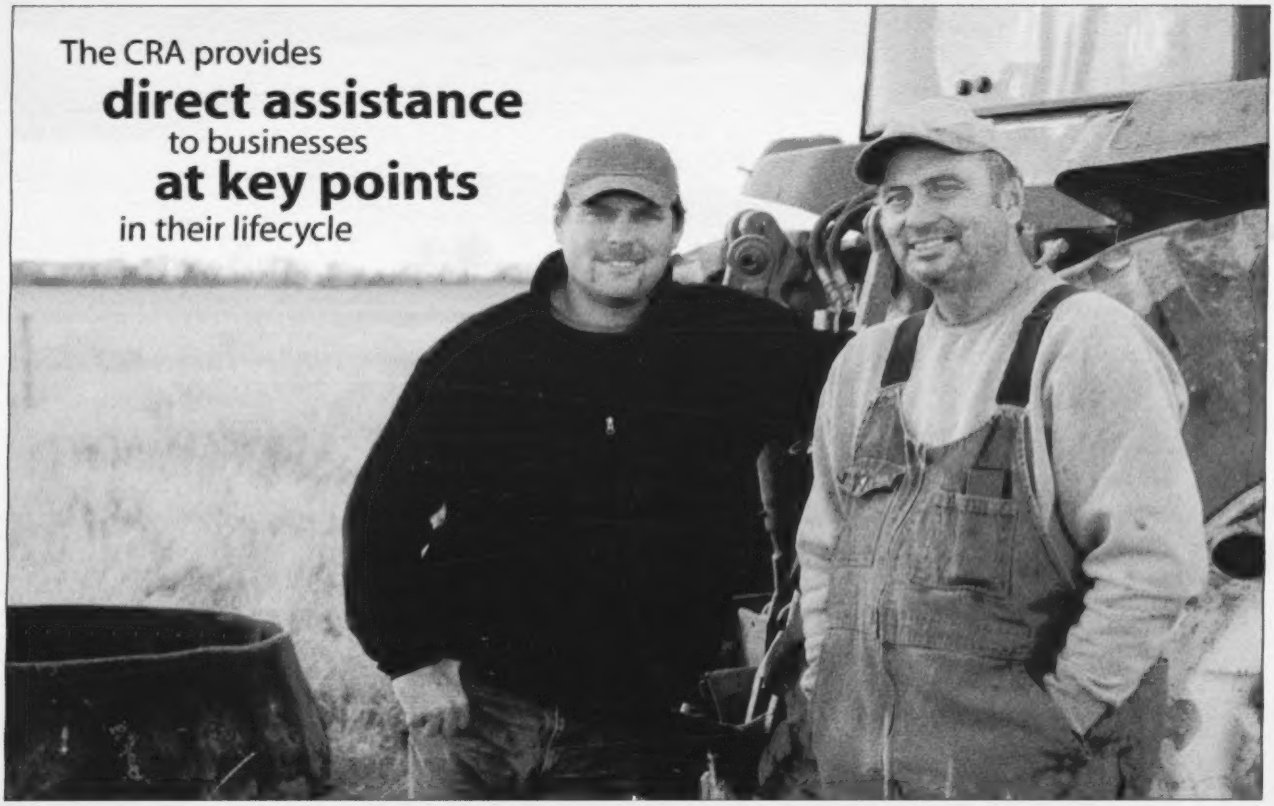
Audit workloads are segregated into three broad categories: International and Large Businesses (ILB), Small and Medium Enterprises (SME), and GST/HST. In addition, the CRA dedicates specific resources to addressing key areas of concern like aggressive tax planning and the underground economy. Reporting non-compliance is also about tax evasion, fraud, and other serious violations of tax laws. In these cases, the CRA conducts investigations that can result in prosecutions, court-imposed fines, or jail time.

An effective audit program depends on high quality business intelligence to ensure that only the highest risk files are selected for audit review. We extract and analyze information from the data we receive to create models that help us identify trends and non-compliant behaviour. We look for things like patterns of poor compliance or business performance out of step with industry norms. This approach helps us focus our resources on taxpayers who are most at risk of reporting non-compliance.

Audit planning is a necessary risk-management step to ensure the audit is done efficiently and that it does not create unnecessary inconvenience for the taxpayer. Auditors use the planning phase to determine the scope of their audits and to perform pre-contact analysis, including a detailed review of the tax return to identify unusual or questionable transactions. Audit planning helps reduce the length and cost of the audit process.

[auditing **small** and **medium enterprises**]

The goal of our SME audit strategy is to identify cases of reporting non-compliance and to take the appropriate corrective measures. We do this by reducing our interventions for low-risk groups of taxpayers and by focusing our audit resources on taxpayers who are at risk of non-compliance. In addition, we have begun to employ specialized teams to conduct comprehensive audits on taxpayers operating in high-risk sectors. This approach increases the effectiveness of our audits and reduces the burden on compliant taxpayers. While we are focusing our audit resources on high-risk files, we still maintain appropriate audit coverage levels for low-risk groups of taxpayers.



The CRA provides **direct assistance** to businesses **at key points** in their lifecycle

One of our recent initiatives to facilitate compliance is the Electronic Transfer of Accounting Data service, which enables taxpayers to transfer financial and accounting data to auditors. This will save time for taxpayers and their representatives and allow them the flexibility to send us data outside their normal business hours from anywhere in the world.

In 2012-2013, we exceeded two important performance targets: we adjusted a higher percentage of tax returns we audited, and our audit activities generated a higher fiscal impact per full-time equivalent (auditor). We did, however, complete a lower number of total audits than we did in 2011-2012. This is in part because of our strategic decision to focus more resources on auditing high-risk files. As we move forward, we expect that our new approach to selecting high-risk files and using specialized teams will continue to increase the fiscal impact of our SME Program.

Key results:

- We completed 171,028 files, compared to 180,701 in 2011-2012
- We reassessed 79% of the files we audited, well above our target of 75%
- The average fiscal impact generated was $423,000 per full-time equivalent, well above our target of $350,000

[auditing **international** and **large businesses**]

Our International and Large Business (ILB) Program is responsible for ensuring that Canada's largest and most complex corporations remain compliant with Canada's tax laws. A key element of our approach is building and improving our relationship with large businesses and promoting a transparent and cooperative approach to compliance. Maintaining an open relationship with large businesses helps to provide early tax certainty for businesses. It also gives them a clearer understanding of our application and interpretation of the legislation we administer. Our goal is to identify and resolve as many reporting issues as possible in a timely manner, before the non-compliance occurs.

Tax administrations around the world are looking at increasing cooperation to better assess and enforce compliance for international and large businesses. In 2012, the CRA started a pilot project involving a joint

audit with another tax administration. International joint audits represent a new form of coordinated action between tax administrations. They require the collaboration of two tax administrations to form a single audit team to examine the transactions of a business operating in both countries.

The concept of joint audits presents clear advantages over conventional audit approaches; they provide early tax certainty and minimize the compliance burden, which benefits the tax administrations and the business. In addition, the joint audit team can leverage the legislative powers and information-gathering tools of their respective tax jurisdictions to more efficiently resolve compliance issues. Joint audits also gives the CRA an excellent opportunity to gain insight into the best practices of other tax administrations. We are monitoring the outcomes of this pilot project to develop procedures and guidelines for future joint audits with our international partners.

Promoting transparency and cooperation benefits the CRA and taxpayers. Businesses want a certain degree of certainty when managing their tax affairs. This is one of the reasons we often negotiate advance pricing arrangements (APA) with multinational corporations. An APA is a formal agreement that provides a mutually acceptable transfer pricing methodology between the CRA and a business for the purpose of future intercompany transactions. Every arrangement completed removes uncertainty for both the business and the CRA and reduces the risk of double taxation and litigation.

Negotiating an APA can be resource intensive, as it often requires additional research to resolve differences between the CRA and foreign tax administrations on transfer pricing positions. It can take several years to process an APA from the moment the case is accepted to the signature of the agreement. The process can be lengthened considerably if there are substantial differences between the CRA and foreign tax administrations. However, the outcome of these negotiations directly impacts the tax treatment of billions of dollars worth of cross-border transactions. As a result, the long-term benefits for both businesses and the government of Canada are well worth the investment required. APAs serve to secure billions of dollars of taxable income that otherwise might have been lost.

The expertise gained from working on complex ILB files is invaluable to us. Some of our most experienced auditors work as industry specialists or business valuation experts as a result of their in-depth knowledge of industry practices. We are increasingly using the expertise of these specialists to help us deal with complex international business operations and accounting practices. The sound judgement of our audit experts remains the essential factor in our success.

The reach and influence of our auditors also goes beyond Canada's borders. Our auditors regularly provide technical assistance through their participation in international conferences, training sessions, and seminars. CRA auditors are key players in organizations such as the OECD and the Inter-American Centre of Tax Administrations. In 2012, for example, we participated in five learning events offered by the OECD Global Relations Programme, which engages interested countries in a dialogue on the development and implementation of global tax standards. These activities help to transfer tax expertise and to build the technical capacity of tax administrations around the world.

The CRA is continuously looking to improve the ILB Program. Our goal is to focus our efforts on high-risk files and to reduce the compliance burden on taxpayers. To that end, we made several changes to our ILB Program to improve program efficiency.

- The CRA began studying the feasibility of forming temporary specialized teams with unique knowledge and skills to support field auditors dealing with complex audits. These teams would be created as needed and dissolved upon the resolution of the audit. They would comprise audit specialists from headquarters and the regions and could include other professionals like

Strengthening international tax collaboration

Globalization of the economy and the expansion of international capital flows are increasing the need for countries to work together to prevent issues such as double taxation, tax avoidance, and tax evasion. A coordinated response is required to meet the challenges posed by the current international tax environment. Canada has 90 tax treaties and 16 tax information exchange agreements (TIEA) in place that are improving our ability to share tax information. In 2012-2013:

- Canada signed agreements with Hong Kong and Serbia;
- Canada updated agreements with Luxembourg, New Zealand, Poland, Singapore, and Switzerland to reflect the international standard for exchange of information;
- The agreement with Columbia entered into force;
- Canada started negotiations with the United States to improve information exchange;
- Canada signed TIEAs with Panama, Liechtenstein, and Uruguay;
- The TIEAs with Aruba, Saint Lucia, and Costa Rica entered into force;
- Canada conducted a first joint audit with another tax administration.

The CRA works closely with other tax administrations and is involved in the following international and regional tax organizations:

- OECD, namely the Forum on Tax Administration and the Committee of Fiscal Affairs;
- Global Forum on Transparency and Exchange of Information for Tax Purposes;
- Inter-American Centre of Tax Administrations;
- Commonwealth Association of Tax Administrators;
- Centre de rencontres et d'études des dirigeants des administrations fiscales;
- Joint International Tax Shelter Information Centre and other operational groups.

lawyers, valuation specialists, and industry specialists. These specialized teams could be an important response to the increasingly complex issues faced by our auditors in the ILB Program.

- Employees of our Aggressive Tax Planning Division are now involved from the start of an audit in our ILB Program if ATP is identified as a possible issue of concern. This will reduce the number of interactions between the CRA and businesses during the audit process.
- We worked cooperatively with large businesses to help prevent non-compliance. This was accomplished through in-person meetings and agreements with businesses to confirm what they need to do to be compliant. This collaborative approach to compliance has been well received by businesses.
- We continued to reap the benefits of our shift to a more risk-based approach to audit selection. In addition to deploying our audit resources more effectively on high-risk files, we are reducing the audit burden on compliant businesses.
- We renewed our emphasis on auditing tax returns for the most current tax years. We have been focusing on clearing up older files that sometimes involved the audit of returns that are several years old. We are working towards a real-time approach that will focus on auditing tax returns for current years.
- The CRA has started piloting a number of initiatives relating to national workload management. Our objective is to adopt a national workload model that enables us to allocate resources based on file risk and the technical capacity of our auditors. This approach will improve the quality of our audits and reduce costs.

Key results:

- Our ILB income tax audit activities identified over $6 billion in total fiscal impact
- We completed 21,427 files, compared to 25,577 in 2011-2012
- We reassessed 85% of the files we audited, below our target of 90%

[**aggressive** tax planning]

Aggressive tax planning (ATP) represents an emerging threat to our tax base. Governments need a secure tax base to support investments in schools, hospitals, and other vital government services. ATP undermines the integrity and fairness of Canada's tax system and erodes the tax base.

ATP is generally facilitated through schemes that involve very complex financial structures with both domestic and international components that are designed for the sole purpose of avoiding the payment of taxes. They are often arranged by tax planners and promoters whose operations include connections in countries that are known to be tax havens. The globalization of trade, the easy movement of people and money across borders, and the growth of electronic commerce have made ATP a major concern for tax administrations around the world.

The CRA is working in collaboration with international partners to ensure that profits cannot be artificially shifted away from countries where the sales and income are generated. As part of this effort, we are expanding our network of tax information exchange agreements (TIEA). These agreements are essential for facilitating the kind of exchange of information required to deal effectively with ATP.

Another central part of our ATP strategy is to work closely with the Department of Finance, the Department of Justice, and other government partners to develop the legislative tools needed to effectively deal with ATP. This includes legislation to get better and faster access to information, close tax loopholes, and impose stronger sanctions on those who promote or participate in ATP schemes.

Budget 2012 contained several important measures to address aggressive tax shelters, the integrity and fairness of capitalization rules, and foreign affiliate dumping. Recent budgets also contained a number of legislative amendments designed to control the abusive use of foreign affiliates and the use of indirect loans and retirement compensation arrangements in ATP schemes.

Promoters who gain financially from designing, marketing, and promoting ATP schemes now face severe penalties for encouraging taxpayers to contravene Canada's tax laws. We believe that focusing efforts on promoters will have a wider impact to deter participation in mass-marketed ATP schemes. The OECD has stated that this strategy delivers faster and more cost-effective results than strategies that focus exclusively on the participants in these schemes.

In 2012-2013, the CRA successfully imposed 17 third-party (e.g. promoters) penalties resulting in over $46 million in monetary penalties. The number of third-party penalties imposed in the past year is a significant achievement and should have a direct impact on ATP promotional activities. This also potentially influences the behaviour of thousands of taxpayers who might have otherwise been persuaded to participate in these schemes.

Effectively controlling and containing the impact of ATP requires time and resources, as the problem is complex and there are no simple remedies or quick fixes. Our progress

Addressing aggressive tax planning in Budget 2013

Budget 2013 announced a series of key measures to combat ATP, including:

- A new initiative to pay individuals with knowledge of major international tax non-compliance a percentage of federal tax collected as a result of the information provided.
- New legislation to require certain financial intermediaries to report international electronic funds transfers greater than $10,000. These requirements will apply to financial institutions currently subject to FINTRAC regulations.
- New legislation requiring Canadian taxpayers with foreign income or properties to report more detailed information.
- A measure to streamline the judicial process that provides the CRA authorization to obtain information from third parties such as banks. This measure will facilitate faster access to information on unnamed individuals for the purposes of civil actions.

in combatting ATP must be understood within the context of initiatives and strategies that often take years to bring to fruition.

Recent initiatives and developments related to ATP include:

- The launch of a campaign to protect taxpayers from gifting tax shelter schemes. The assessment of tax returns for individuals is now put on hold when they include tax credits related to gifting tax shelter schemes.
- A campaign to identify ATP schemes involved in the promotion of the tax-free withdrawal of RRSP contributions. RRSP trustees with potentially high-risk investments are being identified and reviewed.
- The CRA worked with the Ontario government to help introduce anti-ATP legislation similar to the rules introduced by the federal government as part of Bill C-48. The CRA also negotiated a new agreement with the province on compliance activities focused on aggressive international tax planning.
- The Supreme Court of Canada and the Federal Court of Appeal issued two important rulings that will help us deal more effectively with ATP schemes. The Supreme Court ruled that central management and control over the trust property, rather than the residence of the trustees, was the appropriate test for determining residency according to the *Income Tax Act*. Additionally, the Federal Court of Appeal ruled that a dividend is received by a taxpayer when funds have been distributed from a corporation on the interruption or reorganization of its business.

Key results:

- We completed 16,556 files, compared to 21,506 in 2011-2012
- Our audit activities identified over $1.3 billion in fiscal impact, an increase of 2% over 2011-2012

[the **underground** economy]

The underground economy (UE) relates to any economic activity that goes unreported for tax purposes. It has a corrosive effect on the integrity of Canada's tax system, the competitiveness of businesses, and the ability of the government to balance its budget. The CRA commits significant resources to the identification and pursuit of those who willfully participate in the UE. We are particularly concerned about sectors of the economy where cash transactions are common and the temptation to participate in the UE is high.

The CRA uses different strategies to deal with the UE. This includes compliance research, outreach, education, communications, and targeted compliance activities. Assessing progress against the UE can only be done by looking at longer term trends and results. To this end,

the CRA commissioned Statistics Canada to update their UE estimates. These new estimates were released in September 2012.

Statistics Canada found that the UE as a percentage of gross domestic product (GDP) declined between 1992 and 2009. The UE as a percentage of GDP fell from 2.9% in 1992 to just 2.3% in 2009. The study also found that the three most significant industry sectors in 2009 were construction (29%), retail (20%), and accommodation and food services (12%).

The exact reasons for this decline are difficult to determine. The drivers of UE activity are complex and many of them are beyond our control as tax administrators. According to the OECD, one reason for the drop in UE activity is that industries traditionally considered at high risk are declining as a percentage of the overall economy. Meanwhile, sectors less prone to UE activity are contributing a relatively larger share to our GDP. Along with other sources of business intelligence, the CRA will use this new information to better understand the size and nature of the UE and to adjust our strategic approach accordingly.

Suppression of sales software

Some businesses in the hospitality and retail sectors use electronic suppression of sales software, often referred to as zappers, to electronically suppress the amount of sales recorded. Boston University law professor Richard Ainsworth estimates that some five per cent of all restaurant industry's sales in the United States are "zapped" from financial records. According to the Canadian Restaurant and Food services Association, the Canada's restaurant industry generates $65 billion in annual sales. If similar trends prevail in Canada, zapper use could account for $3.25 billion in unreported sales. As a result, combatting zapper use is a priority for the CRA and a major focus of our UE strategy.

In 2012-2013, the CRA continued to commit significant audit resources towards reducing the UE. We focused our efforts on industry sectors that have traditionally been at risk for UE activity. The CRA identifies files for UE audits by examining an individual's reported income against lifestyle or by reviewing information supplied by informant leads.

We believe that education can also play a significant role in reducing participation in the UE. We created a course called **Responsible Citizenship and Canada's Tax System** to teach young Canadians about the relationship between the self-assessment tax system and the quality of life in Canada. In 2012-2013, 2,296 students received this course. Although the impact on compliance is difficult to measure, the CRA believes that teaching Canadians about the link between responsible citizenship and taxation is essential to winning tomorrow's fight against the UE.

We also worked with provincial and territorial organizations to conduct community visits. We participated in public speaking engagements and educational activities in high schools and trade schools. Our UE outreach activities help us establish a greater presence in the community and improve our relationships with individual taxpayers. They also provide an opportunity for small businesses and individuals to get immediate responses to their tax queries.

Recent developments and initiatives related to the UE include:

- The CRA met with representatives of the Federal/Provincial/Territorial Underground Economy Working Group to reduce the impact of the UE through joint research and actions.
- The CRA continued to engage local communities and provincial and territorial governments to find better ways to reduce the impact of the UE.
- The CRA exchanged information with OECD members on issues relating to UE research and best practices.
- The CRA continued to work closely with industry groups like the Canadian Home Builder's Association to reduce the impact of the UE.
- The CRA established specialized regional audit teams to target UE risks that may be unique to specific regions.
- The CRA continued to validate the estimated suppressed sales from zapper use.
- Budget 2013 introduced new administrative penalties and criminal offences to address the electronic suppression of sales software. These new sanctions will take effect on January 1, 2014, or when the enacting legislation receives royal assent.

In 2012-2013, we increased the total dollar value of taxes assessed by more than 17% compared to 2011-2012. Also, we reached more individuals through our outreach activities in communities across Canada than we did in 2011-2012.

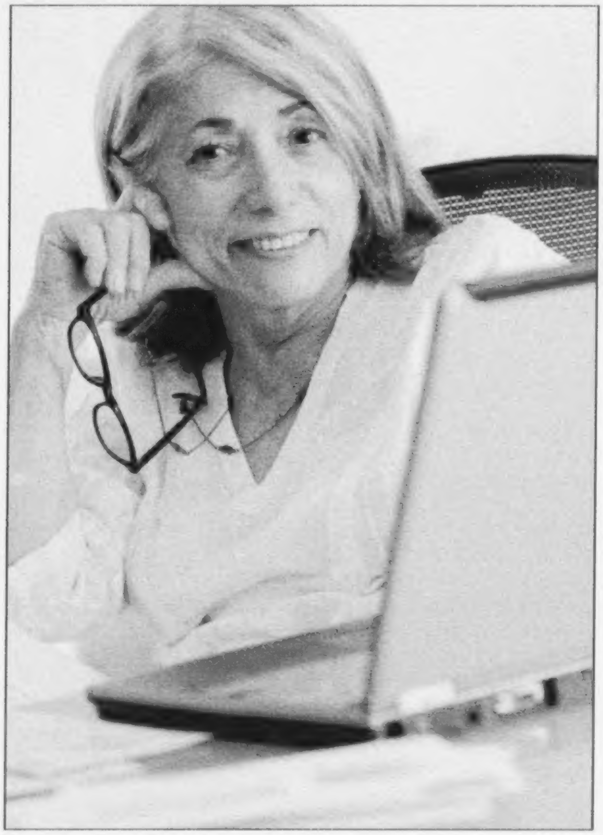
Key results:

- We audited 10,822 UE files. The total dollar value of taxes assessed was $305 million, an increase of 17% over 2011-2012
- The SME Program conducted 1,786 visits for all outreach activities related to the UE, an increase of 18% over 2011-2012
- Our outreach activities reached 33,117 participants, an increase of 33% over 2011-2012

[GST/HST]

The goods and services tax (GST) is collected on most goods and services purchased in Canada. The harmonized sales tax (HST) is in effect in Nova Scotia, New Brunswick, Ontario, and Newfoundland and Labrador. The Government of Prince Edward Island recently became an HST province, effective April 1, 2013.

The CRA relies on businesses to assess their own GST/HST liabilities, file returns, and pay amounts due. Because the GST/HST is only paid by the end buyer of the taxable supply or service, businesses are able to recover the GST/HST they have paid in the form of input tax credits.



The CRA has recently created efficiencies by centralizing the GST/HST workload in centres of expertise. We now have specialized teams devoted only to ensuring GST/HST reporting compliance.

Recent GST/HST developments and initiatives include:

- The refinement of our risk-assessment models to better identify business registrants participating in the UE.
- The implementation of a national inventory model in April 2012 to improve our focus on high-risk files across the country. This new approach allows us to accelerate the payment of low-risk claims. All GST/HST credit returns from across Canada are now worked through this national inventory.
- The Government of British Columbia returned to the provincial sales tax/goods and services tax (PST/GST) model on April 1, 2013. The CRA had administered the HST in British Columbia from July 2010 to March 2013.

We created a separate GST/HST audit business line to accommodate the harmonizing of the GST with the PST of Ontario. As a result, we did not meet our projected change rate target. However, we are improving risk assessment and file selection, which we expect will have a positive impact on our GST/HST change rate in the future.

Our pre-assessment national inventory has helped us identify high-risk files. The total additional tax dollars assessed as a result of GST/HST audits is significantly higher than last year.

Key results:

- The CRA completed 89,409 GST/HST audits
- The total additional fiscal impact as a result of GST/HST audits is $1.5 billion, an increase of 31% over 2011-2012
- We reassessed 67% of the files we audited

[**enforcing** reporting compliance]

Our Criminal Investigations Program is tasked with investigating suspected cases of tax evasion, fraud, and other serious violations of tax laws and recommending cases to the Public Prosecution Service of Canada (PPSC) for prosecution.

Criminal investigations activities represent the far end of the compliance continuum. The Criminal Investigations Program investigates and gathers sufficient evidence to support a criminal court conviction. On occasion, we conduct joint investigations with the Royal Canadian Mounted Police (RCMP). We also work closely with the Financial Transactions and Reports Analysis Centre of Canada.

When individuals are convicted of tax evasion, they must repay the full amount of taxes owing, plus interest and any civil penalties that are assessed by the CRA. In addition, the court may impose fines of up to 200% of the taxes evaded and a jail term of up to five years.

The CRA publishes conviction results for all individuals, corporations, and trusts found guilty in the courts of tax evasion. We do this to increase public awareness of our enforcement programs and to maintain public confidence in the integrity of our self-assessment tax system. We also hope that publicizing convictions will have a deterrence effect. The CRA will ensure that any serious abuse of Canada's tax laws does not go unpunished or unnoticed.

Between April 1, 2006, and March 31, 2013, the Criminal Investigations Program successfully prosecuted 1,410 taxpayers involving over $196 million in federal taxes evaded. In total, the courts imposed fines over $108 million along with 4,063 months in jail terms.

Over the last decade, the level of fraud involving value-added consumption taxes like the GST has risen in Canada and around the world. The fraudulent claiming of input tax credits has become a major source of funds for tax fraudsters who create fictitious businesses, register GST/HST accounts, and then file fraudulent refunds. In April 2012, the CRA successfully prosecuted two individuals who were found guilty of GST/HST tax fraud worth millions of dollars and sentenced accordingly.

In 2012-2013, the CRA saw its first three convictions of tax protestor promoters for counselling others to evade taxes. In all three cases, hefty fines and lengthy prison terms were handed to the individuals involved. This is a significant development because these promoters often land uninformed individuals in serious financial, tax, and legal difficulty.

In 2012-2013, we implemented the recommendations of an internal program evaluation report and undertook a number of initiatives to improve our Criminal Investigations Program:

- The CRA set up six criminal investigations offices to create a critical mass of investigators to address the most complex cases of tax evasion and fraud. The location of these offices will enable the CRA to strengthen cooperation with its key partners, the RCMP and the PPSC.
- We increased our focus on gathering evidence to support criminal charges.
- The CRA developed a new workload model to refine file selection for criminal investigations. This process is managed at the national level.
- We dedicated more resources towards compliance enforcement involving the promoters of tax evasion schemes and the pursuit of files related to aggressive international tax planning.

Investigating suspected cases of tax evasion is a lengthy process and cases often take years to come to fruition. Investigations are taking longer as a result of the complexity of fraudulent tax schemes, particularly those with links to income and assets offshore, and the digitizing of information. For example, search warrants concerning tax fraud investigations can sometimes yield millions of pages of digital information. Analysing this data requires time and specialized technical resources. In addition, obtaining evidence located outside Canada is an expensive and challenging process. We expect that the significant changes we have implemented as a result of our business transformation will have a positive impact on our Criminal Investigations Program.

Key Results:

- Our enforcement activities identified $46 million in additional taxes owing
- The PPSC conviction rate was 96%
- The percentage of cases with mandatory jail terms was 23%, up 5 percentage points over 2011-2012
- The average jail term was 22 months, up from 18 months in 2011-2012

[**voluntary** disclosure program]

The CRA's Voluntary Disclosures Program (VDP) gives taxpayers an opportunity to come forward and self-correct,

Tax protection

According to the OECD, the CRA sets a high standard for other national revenue bodies to achieve when it comes to measuring taxpayers' compliance. However, some of the important audit work is not captured by existing performance measures, and tax administrations around the world are facing a similar issue: finding innovative ways to measure the intangible impact of compliance activities and move beyond the traditional audit approach. For example, some audit adjustments do not have an immediate tax impact, but they can have significant tax implications for future tax liabilities. Such adjustments help safeguard the fairness and integrity of the tax system and contribute to protecting Canada's future tax base.

potentially avoiding punitive penalties or prosecution. However, taxpayers who make voluntary disclosures still have to pay all outstanding taxes and interest due. These disclosures can include unreported or under-reported income from employment or business, unreported capital gains, or any error made on a tax return filed previously. The nature of the information disclosed by taxpayers allows the CRA to gain valuable insight and intelligence on tax avoidance and aggressive tax planning schemes.

Key results:

- The CRA processed 15,133 VDP cases, an increase of 11% over 2011-2012
- The VDP found more than $1.2 billion in unreported income, an increase of 40% over 2011-2012

[scientific **research** and experimental **development**]

The Scientific Research and Experimental Development (SR&ED) Program is an important federal tax incentive program administered by the CRA. It provides support to Canadian businesses to encourage research and development (R&D) in Canada. The SR&ED Program offers claimants tax incentives in the form of income tax deductions and investment tax credits based on their expenditures like wages, materials, and machinery on eligible SR&ED work done in Canada.

The *Income Tax Act* provides a definition of scientific research and experimental development and describes eligible SR&ED work and expenditures. We give information and services to help businesses determine if their R&D work and expenditures are eligible for these tax incentives.

We review the technical and financial aspects of all SR&ED claims. This is an important check to ensure that the program operates as intended and that SR&ED work and expenditures meet the specific requirements defined in the *Income Tax Act*. Our focus is on identifying high-risk claims and using a more tailored strategy to address key areas of concern.

In 2012-2013, the CRA started work on a number of initiatives to improve the predictability and the accessibility of the SR&ED Program.

- The CRA released new, consolidated SR&ED policy documents and reorganized its SR&ED Web page content to present information in a more user-friendly way. The

goal of this initiative was to make compliance easier by clarifying and simplifying SR&ED policies.

- The CRA is improving its self-assessment and learning tool, which is designed to assist businesses in determining the eligibility of their R&D work for SR&ED tax incentives. We expect to release this updated tool in 2013-2014.
- The CRA launched a pilot project to establish the feasibility of a formal pre-approval process (FPAP) for SR&ED claims. The FPAP will provide better certainty to businesses on the eligibility of their SR&ED claims before filing. During the pilot, the CRA will be working with a number of businesses to receive feedback on FPAP.
- We increased our engagement with stakeholders by meeting with industry representatives to discuss and address emerging SR&ED program issues. These discussions will continue to be held regularly.

Our results indicate that more businesses are receiving tax assistance over time. In addition, we continued to meet our performance targets for our four service standards for the processing of SR&ED claims and requests.

Key results:

- The CRA provided more than $3.6 billion in tax assistance in support of industrial research and development
- The CRA processed 28,140 claims, compared to 28,993 in 2011-2012
- The CRA provided tax assistance to over 23,000 claimants through the SR&ED Program, an increase of 27% over the number of claimants who received tax assistance five years ago
- The CRA processed 96% of SR&ED refundable and non-refundable claims within 120 days and 365 days respectively, well above our target of 90%
- The CRA identified $404 million in non-compliance, compared to $424 million in 2011-2012

[conclusion]

Compliance with Canada's tax laws ensures that Canadians will continue to enjoy public services that are making a difference in their everyday lives.

The CRA conducts audits to maintain the public's confidence in the CRA's ability and willingness to enforce existing tax laws. An audit is one of the most resource intensive activities undertaken by the CRA. As such, it must be supported by strong risk-assessment tools and carefully planned.

The CRA puts a lot of effort into helping taxpayers get it right from the start so that they can more easily comply with tax laws. Intervening before events occur and lowering the risk of non-compliance for taxpayers is essential to reducing the cost of compliance for both taxpayers and governments. This is why we will continue to look for ways to provide taxpayers with better compliance support.

Collaboration with other tax administrations is a key component of our international strategy to combat non-compliance with Canada's tax laws. A transparent, collaborative process for exchanging information between countries is invaluable in supporting the international examination of tax issues. To that end, we will continue to pool expertise and knowledge with other tax administrations to implement best practices. The CRA will continue to contribute to efforts to strengthen the legislative framework for international taxation through international forums like the OECD.

The CRA continues to safeguard the integrity and fairness of the tax system through a comprehensive approach that works to support compliance and assists taxpayers to comply. However, our primary focus will still remain the detection and correction of reporting non-compliance. Our intention is to continue to execute that mandate through the vigorous pursuit of non-compliance and other serious violations of Canada's tax laws.

[volumetrics]

Fiscal impact[1]	2010-2011	2011-2012	2012-2013
International and large business (ILB) ($ billion)	$6.1	**$5.6**	**$6.1**
Small and medium-sized enterprises (SME) ($ billion)	$1.5	**$1.5**	**$1.3**
Goods and Services Tax/Harmonized Sales Tax (GST/HST) ($ billion)	$0.7	**$1.1**	**$1.5**
Other audits ($ million)	$626	**$543**	**$497**
Overall fiscal Impact ($ billion)	$8.9	**$8.7**	**$9.4**

[1] $547 million dollars of fiscal impact was refunded during 2012-2013 through the resolution of double taxation issues with Canada's treaty partner countries. This amount had been included in our program results for prior years.

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
Reporting non-compliance is detected and corrected by better targeting of compliance actions through effective risk assessment	**Fiscal impact generated per audit FTE ($ million)**				
	International and large business - income tax[1]	$2.7	$3.0	$2.9	$3.2
	Small and medium-sized enterprises - income tax[1]	$0.35	$0.41	$0.44	$0.42
	Goods and services tax/harmonized sales tax	N/A[2]	$0.47	$0.58	$0.59
	Other audits	$0.39	$0.42	$0.39	$0.38
	Overall	$0.9	$1.02	$1.01	$1.06
Income tax and GST/HST audits and examinations detect and address non-compliance with the reporting requirements of the Acts administered by the CRA	**Percentage of cases resulting in a change**				
	International and large business - income tax[1]	90%	94.1%	87.6%	85.1%
	Small and medium-sized enterprises - income tax[1]	75%	78.1%	77.9%	79.5%
	Goods and services tax/harmonized sales tax	75%	65%	63.4%	66.8%
	Underground economy	75%	78.4%	79.8%	81.2%
Eligible claimants receive timely scientific research and experimental development tax incentives	Percentage of claims processed within target for the 4 service standards	100%	100%	100%	100%
Auditors receive timely advice, support and services to detect non-compliance, and taxpayers receive timely advice to facilitate compliance	Percentage of requests for real estate and business equity valuations actioned within 120 days of receipt	80%	94.4%	92.1%	96%
	Percentage of ministerial correspondence actioned within 30 days of receipt	80%	79.6%	78.1%	85.9%
	Percentage of individual learning plan requests for national intermediate and advanced taxation courses actioned	40%	45.8%	54.5%	67.7%

[1] The results for 2010-2011 and 2011-2012 have been adjusted in order to report the Goods and Services Tax/Harmonized Sales Tax separately.

[2] Not available: A target for the fiscal impact generated per audit FTE for the GST/HST is under development.

We resolved **75,022** administrative disputes

We resolved **2,314** service complaints

[appeals]

[program **description**]

The CRA provides a dispute resolution process for taxpayers and benefit recipients who disagree with CRA decisions and seek relief. If taxpayers are not satisfied with the results of the process, they can appeal to the courts.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
153,855	171,830	212,453	**192,046**	(20,216)

Sub-program	Planned spending[1]	Actual spending[2]	Difference
Income tax objections, determinations and appeals to the courts	126,662	**143,374**	(16,712)
Commodity taxes objections, determinations and appeals to the courts	18,517	**15,228**	3,289
Canada pension plan/employment insurance appeals to the Minister and appeals to the courts	5,923	**3,208**	2,715
Service complaints	7,966	**7,622**	344
Taxpayer relief	12,762	**22,614**	(9,852)
Total	**171,830**	**192,046**	**(20,216)**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
Income tax objections, determinations and appeals to the courts	1,067	**1,058**	9
Commodity taxes objections, determinations and appeals to the courts	202	**140**	62
Canada pension plan/employment insurance appeals to the Minister and appeals to the courts	155	**141**	14
Service complaints	97	**94**	3
Taxpayer relief	133	**261**	(128)
Total	**1,654**	**1,694**	**(40)**

Numbers may not add due to rounding.

[sub-program **description**]

Income tax objections, determinations, and appeals to the courts	The income tax objections, determinations, and appeals to the courts program provides a timely, impartial, and consistent dispute resolution process for taxpayers who disagree with decisions the CRA has made relating to assessments or determinations made under the *Income Tax Act*. By engaging in dialogue with the taxpayer, an appeals officer conducts an impartial review of the decision to try to resolve the dispute. This program is also responsible for working with the Department of Justice in the conduct of appeals before the courts.
Commodity taxes objections, determinations, and appeals to the courts	The commodity taxes objections, determinations, and appeals to the Courts program provides a timely, impartial, and consistent dispute resolution process for taxpayers who disagree with decisions the CRA has made relating to assessments or determinations made under the *Excise* and *Excise Tax Act*. By engaging in dialogue with the taxpayer, an appeals officer conducts an impartial review of the decision to try to resolve the dispute. This program is also responsible for working with the Department of Justice in the conduct of appeals before the courts.
Canada Pension Plan/Employment Insurance appeals to the Minister, and appeals to the Courts	The Canada Pension Plan/Employment Insurance appeals to the Minister and appeals to the Courts program provides a timely, impartial, and consistent dispute resolution process for taxpayers who disagree with decisions the CRA has made relating to assessments or rulings made under the *Canada Pension Plan* and the *Employment Insurance Act*. By engaging in dialogue with the taxpayer, an appeals officer conducts an impartial review of the decision to try to resolve the dispute. This program is also responsible for working with the Department of Justice in the conduct of appeals before the courts.
Service complaints	The Service Complaints Program provides a timely service complaints resolution process for taxpayers who are not satisfied with the level of service they have received from the CRA, as defined in the Taxpayer Bill of Rights. It identifies service-related problems and proposes solutions to taxpayers.
Taxpayer relief	The Taxpayer Relief Program provides relief to taxpayers who may not be able to meet their tax obligations due to personal misfortune or circumstances beyond their control. When taxpayers disagree with the application of the taxpayer relief provisions by the CRA, the Appeals Branch works with the Department of Justice in the conduct of litigation before the courts.

[performance **analysis** and **lessons** learned]

The Appeals program provides a fair and impartial process to resolve disputes, service complaints, and requests for relief arising from decisions made under the legislation and programs administered by the CRA.

We believe that by listening to people's concerns and acting in a fair and responsible manner, we earn the trust and respect of Canadians on whom we rely to sustain our voluntary compliance system. We conduct impartial reviews by actively engaging in dialogue and utilizing alternative dispute resolution processes when appropriate. We also collaborate with the Department of Justice in cases where litigation is required.

[**disputes**]

If taxpayers disagree with an assessment, we strongly recommend that they first call or write to the tax centre that processed their tax return. Since disputes can sometimes be caused by lack of information or miscommunication, many disagreements are resolved in this way.

If a taxpayer still does not agree with an assessment, determination, or decision after talking with us or writing to us, they have the right to a formal review. The CRA provides a timely, impartial, and consistent review process to resolve disputes arising from decisions made under the laws we administer. We deal with disputes that arise from assessment of income tax, excise tax, goods and services tax, harmonized sales tax, air travellers security charges, and softwood lumber exports charges, as well as Canada Pension Plan and Employment Insurance rulings and assessments.

Filing a notice of objection is the first step in the formal redress process for resolving a dispute. Taxpayers can file an objection by using the Register my formal dispute option of My Account, or by completing and mailing the appropriate objections form to the CRA, or by mailing a signed letter addressed to the Chief of Appeals. Detailed information regarding the objections process is available on the CRA Web site under the Complaints and disputes page and taxpayers can download objection forms on our Forms and publications page.

To ensure impartiality, when taxpayers file a notice of objection, their review is completed by an appeals officer who was not involved in the original assessment, determination, or ruling. We ensure the decisions we make are in keeping with applicable legislation and jurisprudence.

The CRA sends an acknowledgement letter to all taxpayers who file objections. The CRA's goal and published external service standard is to mail an acknowledgement letter to taxpayers within 30 days of receipt of their Notice of Objection, 85% of the time. In 2012-2013, we substantially met this standard with a result of 84%. As this year's results demonstrate, the changes we are making to create new efficiencies by simplifying and centralizing some of our internal workflow processes are moving us closer to meeting this challenging service standard.

The CRA's objection workload is divided into three groups of files:

- Regular objection workload, including objections to income tax and GST/HST assessments from individual taxpayers, non-corporate business entities such as sole proprietorships or partnerships, corporations, and other entities that disagree with their assessments.
- Group files, including the aggressive tax planning (ATP) workload that is composed of income tax or GST/HST objections that have been identified as part of a tax planning scheme.
- *Canada Pension Plan* (CPP) and *Employment Insurance Act* (EI) Appeals to the Minister.

During 2012-2013, as part of our transformation agenda, we undertook a number of specific actions to optimize our dispute resolution and redress programs:

- We centralized the physical storage and upkeep for ATP objection files awaiting legal decisions on leading court cases, to more effectively control administrative costs.
- We completed the development of a Web-based information management system to aid in the coordination and processing of ATP files. This system will be fully implemented in 2013-2014 and will centralize, standardize, and simplify the processing of all documentation required to manage objections involving large groups of files.
- We piloted various changes in our resolution process, such as fast-track, and segmentation of objections to identify cost savings while maintaining quality decisions.

Key results:

- We received 87,017 income tax, commodity tax, and CPP/EI disputes
- We resolved 75,022 disputes

[litigation]

If a tax matter is not resolved to the taxpayer's satisfaction at the objections review, the taxpayer can appeal to the Tax Court of Canada (TCC) or the Federal Court. The courts are independent of the CRA and all other government departments. They hear appeals from assessments under the *Income Tax Act*, the *Excise Tax Act* (goods and services tax/ harmonized sales tax), the *Employment Insurance Act* and the *Canada Pension Plan*, among others, and review the exercise of ministerial discretion. Cases heard by the courts include many diverse issues such as those related to the General Anti-Avoidance Rule, transfer pricing, and Aboriginal taxation. This level of review is referred to as litigation and is subject to the rules of the courts.

Key result:

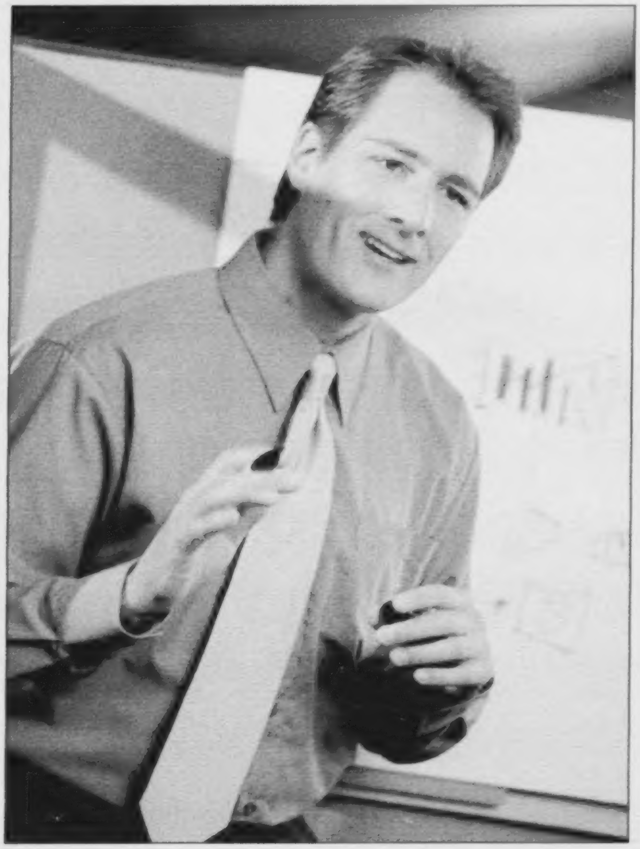
- A total of 4,605 litigation cases were filed before the TCC

*These actions are initiated by individual taxpayers, and the Department of Justice is fully responsible for the conduct of cases before the courts.

[taxpayer **relief**]

The taxpayer relief provisions provide the Minister with discretion to cancel or waive certain late, amended, or revoked elections, and issue income tax refunds or reduce amounts payable beyond the normal three-year period. They also provide authority to cancel or waive penalties and interest otherwise payable. These provisions support a common-sense approach to assisting taxpayers who are unable to comply with certain tax obligations, such as filing a return by its due date, or paying or remitting an amount when required.

The CRA understands that natural disasters may cause great difficulties for affected taxpayers whose primary concerns during this time are their families, homes, and communities. Therefore, the CRA issues media releases on its Web site to advise taxpayers who have been affected by natural disasters that they will have access to the taxpayer relief provisions if they are unable to meet their tax obligations. For example, in 2012, Canadians from several regions, including British Columbia, the Yukon, and Saskatchewan, had to rebuild because of flooding and severe wind. On July 29, 2012, the Minister highlighted that Canadians affected by these devastating weather conditions could apply for relief if they could not meet their tax obligations due to these extreme weather events.



The CRA Web site provides taxpayers with information on how to submit a taxpayer relief request. It also provides details about the limitation period for requesting relief and the information to include with a request. Four intake centres are responsible for registering relief requests in the CRA's Taxpayer Relief Registry System and sending confirmation letters to taxpayers acknowledging receipt of their requests. These relief requests are then considered by trained staff in four centres of expertise across the country.

Key results:

- We cancelled and waived $480 million in penalties and interest for approximately 494,000 requests (taxpayer requested and automated)
- We updated the CRA Web site to improve accessibility and enhance content
- We conducted a learning needs analysis and revised our procedures manuals to include guidelines that will improve consistency and simplify processes

[service **complaints**]

Our Service Complaints Program offers a three-step process to resolve service-related issues resulting from mistakes, undue delays, unclear or misleading information, and concerns about the behaviour of CRA staff. Since some service complaints are caused by a lack of information or simple miscommunication, we first encourage taxpayers to talk to us. Taxpayers who do not agree with the way their complaint was handled may file a formal complaint with the CRA's Service Complaints Program. If taxpayers are not satisfied with the resolution of their issue through our Service Complaints Program, they also have the right to submit a complaint to the Office of the Taxpayers' Ombudsman.

In 2012-2013, we performed a trend analysis of service-related issues identified through our Service Complaints Program. This business intelligence on taxpayers' concerns has helped the CRA to identify and confirm service gaps and to prioritize needs for service improvements. The intelligence gathered has supported CRA decisions to:

- centralize residency determination requests in the International Tax Services Office to improve consistency in responses to taxpayers;
- improve the non-resident payroll source deductions system to minimize cases when a late-remitting penalty was charged in error for estates or trusts making a one-time distribution to non-resident beneficiaries; and

- collaborate with provincial partners, in a project to ensure that we had the most current corporation director's information in our Business Number system. This project will ensure businesses are able to quickly authorize employees or third-party representatives to act on their behalf for tax matters with the CRA, and will help ensure they receive timely responses to their business enquiries.

During the period, we made a concerted effort to increase public awareness of the CRA's Service Complaints Program. We released a webinar on the Taxpayer Bill of Rights and our Service Complaints Program and improved the program's Web site. We also conducted awareness sessions and meetings with CRA employees at various tax services offices and taxation centres to build up employee awareness of the Service Complaints Program and the service rights of taxpayers. These sessions helped identify potential systemic service issues and provided an opportunity to proactively reduce the occurrence of service issues.

Key results:

- We resolved 2,314 service complaints
- 94.3% of the service complaints were resolved within 30 business days

[conclusion]

In 2012-2013, we continued to work hard to ensure that taxpayers received an impartial and timely review of contested decisions made under the legislation we administer.

When taxpayers needed some flexibility to meet their tax obligations, due to circumstances beyond their control, we reviewed these requests and applied the taxpayer relief provisions in a fair and consistent manner. When Canadians were affected by the devastating weather conditions in July 2012, we highlighted the availability of taxpayer relief measures on our Web site to make those affected more aware that support was available and could be easily accessed.

We continue to promote our redress services to ensure that Canadians are fully aware of their rights. We have done this through the improvement of our Web site and by the use of innovative approaches such as the production of Web casts. In 2012-2013 we took several steps to simplify and improve our workload management processes. This has resulted in a reduction of the average age of the disputes in our inventory. As we move forward, we will continue to pursue efforts to simplify our workload management, control costs, and improve the timeliness of our Appeals Program.

Tax appeals evaluation

During 2012-2013, we conducted an internal evaluation of the effectiveness in addressing taxpayer contested decisions. The evaluation found that the program is set up to provide taxpayers with a process to obtain an impartial review of their tax situation. However, the significant growth in aggressive tax planning is impacting the program's ability to resolve taxpayer contested decisions in a timely manner. New legislation has been introduced to formally bind the result of groups of objections to court decisions to reduce the cost of litigation. Details can be found on the CRA Web site at www.cra-arc.gc.ca/gncy/ntrnl/2012/txpplsvltn-eng.html.

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
Canadians have access to impartial and timely review of contested decisions	Average age of workable inventory – income tax files		228 days	238 days	259 days
	First contact letter for dispute	85%	n/a[1]	n/a[1]	84%[1]
	Appeals activities that met standards for consistency – income tax files	97%	98.8%	99%	98.5%
	Appeals activities that met standards for transparency – income tax files	98%	98.8%	99%	99.6%
	Taxpayer relief provisions – consistent application (per Quality Assurance Program)	95%	97%	97%	99.8%
Taxpayers receive a timely review of contested decisions made under legislation administered by the CRA and the handling of service complaints is timely and consistent	Targeted levels of timeliness and consistency for income tax and commodity tax objections, CPP/EI appeals to the Minister, and service complaints, are met	98%	n/a	n/a	100%
Taxpayers receive an impartial review of contested decisions made under legislation administered by the CRA	Taxpayers receive an impartial review of contested decisions made under legislation administered by the CRA	98%	n/a	99.2%	100%
Taxpayers receive an impartial and responsive review of contested decisions made under the *Income Tax Act*	Taxpayers receive an impartial and responsive review of contested decisions made under the *Income Tax Act*	195 workable days	196 days	192 days	174 days
	Percentage of decisions on objections filed under the *Income Tax Act* confirmed by quality assurance reviews	90%	98.7%	98.9%	98.3%
	Percentage of decisions on objections filed under the *Income Tax Act* determined to be impartial meets or exceeds target	95%	99.4%	99.6%	99.4%
Taxpayers receive a timely review of contested decisions made under the *Excise* and *Excise Tax Acts*	Decisions on objections filed under the *Excise and Excise Tax Acts* are completed in 300 workable days on average	300 workable days	177 days	182 days	193 days
	Percentage of decisions on objections filed under the *Excise* and *Excise Tax Acts* confirmed by quality assurance reviews	97%	94.2%	94.3%	95.4%
Taxpayers receive an impartial review of contested decisions made under the *Excise* and *Excise Tax Acts*	Percentage of decisions on objections filed under the *Excise* and *Excise Tax Acts* determined to be impartial meets or exceeds target	96%	98.4%	98.6%	98.4%
Taxpayers receive a timely review of contested decisions made under the *Canada Pension Plan* or *Employment Insurance* Act	Reviews of appeals to the Minister filed under the *Canada Pension Plan* or *Employment Insurance Act* are completed within 140 days on average	140 workable days	155 days	135 days	150[2] days

[performance **results**]

Expected results	Indicators	Targets	2010-2011	2011-2012	2012-2013
Taxpayers receive an accurate review of contested decisions made under the *Canada Pension Plan* or *Employment Insurance Act*	Percentage of decisions regarding CPP/EI appeals to the Minister confirmed by quality assurance reviews	98%	99.8%	99.6%	99.6%
Taxpayers receive an impartial review of contested decisions made under the *Canada Pension Plan* or *Employment Insurance Act*	Percentage of decisions of CPP/EI appeals to the Minister determined to be impartial	97%	99.8%	99.6%	99.6%
Taxpayers receive timely updates to their service complaints	Percentage of service complaints acknowledged within 48 hours (2 business days)	80%	96.6%	97.2%	92%
	Percentage of taxpayers contacted within 15 days to provide an update on the status of their complaint	90%	93.1%	96.1%	93.6%
Taxpayers receive timely resolution of their service complaints	Percentage of service complaints resolved within 30 business days	80%	91.8%	94.5%	94.3%

[1] In 2012-2013 this measurement was revised to more accurately report results by calculating the percentage of first contact letters sent within 30 days based on a measurement when the letters are sent, rather than when the file is closed. This impacts data comparability with previous year results.

[2] This workload was affected by a significant increase in major investigations that have a target of 265 days to complete (an increase from 8 in 2011-2012 to 349 in 2012-2013).

n/a: This is a new indicator for 2012-2013. Prior year results are not available.

We issued over **123 million** payments to **12 million** individuals and families on behalf of the federal, provincial, and territorial governments

[**benefit** programs]

[program **description**]

The CRA's benefit programs provide Canadians with the benefits and other services they are entitled to. The CRA delivers a range of ongoing benefits and one-time payment programs on behalf of the provinces and territories, First Nations governments, and other federal government departments (for example, the Canada child tax benefit, goods and services tax/harmonised sales tax credit, disability tax credit, and universal child care benefit). By providing accessible information and timely responses to benefit recipients by mail, telephone, and online services, we help ensure that the right benefit payment is made to the right individual at the right time.

2012-2013 **financial resources** (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
367,546	377,590	393,742	**383,719**	(6,129)

Sub-program	Planned spending[1]	Actual spending[2]	Difference
Statutory children's special allowance payments	233,000	**238,007**	(5,007)
Benefit enquiries	37,493	**37,592**	(99)
Benefit programs administration	107,097	**108,120**	(1,023)
Total	**377,590**	**383,719**	**(6,129)**

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 **human resources** (full-time equivalents)

Sub-program	Planned	Actual	Difference
Statutory children's special allowance payments	–	–	0
Benefit enquiries	516	**349**	167
Benefit programs administration	1,060	**1,000**	60
Total	**1,576**	**1,349**	**227**

Numbers may not add due to rounding.

[sub-program **description**]

Statutory children's special allowance payments	The statutory children's special allowance payments provides payments to federal and provincial agencies and institutions that care for children. All funding in this program flows through to recipients and no administrative expenditures are deducted. This program is administered under the benefit programs administration program.
Benefit enquiries	The Benefit Enquiries Program offers benefit recipients timely and accessible information on their entitlements and obligations through self-service and assisted channels.
Benefit programs administration	The benefit programs administration delivers a range of ongoing benefits and one-time payment programs that support the economic and social well-being of Canadians. Through processing and validation activities, it ensures the right benefit payment is made to the right individual at the right time.

[performance **analysis** and **lessons** learned]

[providing **information**]

Income security and benefits programs are essential to the economic and social well-being of many Canadians. We understand that the work we do directly affects individuals and families across the country. For this reason, we make every effort to give benefit recipients the information and tools they need to receive their entitled benefits.

The first stop for many benefit recipients looking for general information on benefit programs is our Web site. We have worked hard to make sure that our Web site provides useful information related to application procedures and eligibility criteria. In addition, we always attempt to use our Web site to answer the most frequently asked questions in clear and easily understood language. We also work in partnership with other government departments and agencies like Service Canada, Human Resources and Skills Development Canada, and Citizenship and Immigration Canada to deliver information to benefit recipients through their Web sites, publications, and service facilities.

In an effort to further tailor our services to benefit recipients' needs, our Web site includes useful online tools such as child and family benefits calculators. These enable Canadians to estimate the amounts they could be entitled to for various benefit and credit programs.

This past year, we updated our child and family benefit Web pages to make them easier to use. The new pages include improved navigation features that actively direct users to the information and services they need.

The way in which Canadians seek information and interact with government is changing, and we are working to meet these new demands for real-time services and 24-hour availability. As our e-services evolve, more and more Canadians are choosing them as the preferred way to find information and perform routine transactions. While we continue to focus on the expansion of our e-service offerings, we will ensure that benefit recipients who use the traditional service options will still be able to do so.

Simplifying service

The Automated Benefit Application (ABA) system is one way in which we make it easier for recipients to receive their entitled benefits. The ABA provides Canadians with a quick, easy, and secure way to apply for all child benefit programs for newborns. This service eliminates the need to complete separate applications for each program, reducing processing times, and increasing speed of payment.

In 2012-2013, we added the provinces of Alberta and Newfoundland and Labrador to the ABA system, increasing the number of participating provinces to eight. Use of this service continues to increase with over 93.5% of eligible applicants now using it.

Key result:

- Our child and family benefits Web pages received 6.3 million visits, which represents an increase of 26% over the previous fiscal year

[enquiries]

The success of our e-service strategy is allowing us to reduce the transactional costs of providing services. At the same time, e-services allow 24/7 access to information and services for benefit recipients. The growth trend in the use of our e-services and the downward trend in the number of telephone enquires suggest that providing online information services is reducing the need for benefit recipients to contact us by phone. This is a trend we will continue to monitor.

The CRA recognizes that electronic services are not effective for all taxpayers and benefit recipients, and we remain committed to the delivery of a multi-channel service model. As part of this approach, the CRA sends notices to recipients at the beginning of every benefit year to describe their annual entitlements. Notices are also issued during the year to explain new account activity. In those instances, where additional support is required, benefit recipients are always able to discuss their needs with one of our telephone enquiry agents. In this past year, we have once again fulfilled our commitment to provide prompt and accessible telephone enquiry services for recipients.

Key results:

- The CRA issued 24.3 million benefit notices
- 6.3 million Canadians contacted our benefit enquiries service phone lines in 2012-2013. This represents a 9.6% decrease from the previous year

We issued **99.99%**
of benefits payments **on time**

- We also met our service standard target of 75% for timeliness by answering calls within two minutes 77% of the time for GST/HST credit enquiries, and 77.5% of the time for Canada child tax benefit enquiries.

[self-**service**]

Canadians are embracing online services as the preferred method of conducting their affairs. The CRA recognizes this trend and has adapted its service offerings to include interactive online tools for benefit recipients. Our most comprehensive self-service tool, My Account, makes it easier for benefit recipients to manage their obligations and entitlements. These service options are reducing the need for direct contact with our service representatives, particularly for routine transactions. This e-service lets recipients view their benefit payments or their balances and statements of account online. Benefit recipients can also authorize representatives to act on their behalf or use My Account to perform account maintenance transactions such as changing their address, marital status, or direct deposit information.

In cases where a quick reference to benefit information is needed, we offer a service called Quick Access which allows clients to view some of the information contained in My Account such as the status of benefit payments.

Key results:

- The Benefits page in My Account registered 3.2 million visits and our Quick Access service logged 1 million visits
- 62.8% of benefits recipient contacts with the CRA were through online channels

[**integrating** services]

We continue to look for ways to simplify and streamline federal, provincial, and territorial services to make it easier for recipients to receive their entitlements. We believe that by integrating services across different levels of government and by capitalizing on our information technology systems, we can more efficiently and seamlessly deliver the benefits and credits to recipients. For example, this year, we worked with the province of Ontario to simplify the provision of provincial benefits. In July 2012, the Ontario Trillium Benefit was introduced, which combined the Ontario sales tax credit, the Ontario energy and property tax credit, and the Northern Ontario energy credit into one payment. In addition to combining these entitlements, the payment of this benefit was changed from quarterly to monthly. This change will make it easier for recipients to plan their finances.

We also began delivering the New Brunswick school supplement, a new program that came into effect in July 2012. It is a once-a-year payment that assists low income families in New Brunswick with the cost of back-to-school supplies for their school age children. Similar to the approach used for the Ontario Trillium Benefit, the amount will be combined with the payment for the Canada child tax benefit (CCTB) and the New Brunswick child tax benefit.

We are also playing an important role in maintaining the integrity of other provincial and territorial benefit and credit programs that we do not directly deliver. For example provinces and territories are increasingly turning to us to either verify the eligibility of recipients or request information to ensure accurate payments for some of their programs.

To continue to provide the effective service delivery that benefit recipients and our government clients have come to expect, we are proceeding with the development and implementation of our benefits system renewal project. This initiative aims to revitalize the CRA's benefits processing system by including new information technologies. By modernizing our information technology platform, we will be able to maintain our benefit delivery system and build in the flexibility needed to respond to opportunities for growth and innovative service delivery on behalf of our government clients.

We also added two new income verification programs:

- the Northwest Territories Department of Education, Culture and Employment Student Financial Assistance Program; and,
- the Ontario Ministry of Finance Investment in Affordable Housing Program.

With these additions, the number of programs and services we deliver now stands at 127. The growth in our portfolio demonstrates our service delivery efficiency, making us the service provider of choice for income-based benefit and credit programs in Canada.

Key result:

- We expanded our data exchange agreements to include new programs such as the Ontario Trillium Benefit

[**validating** eligibility]

To ensure benefits recipients receive accurate benefits, we review and verify recipient information each year through our automated validation processes and in some cases, we even contact individuals to confirm specific account details. If account information is incorrect, we update it. Specific files are selected for review based on our targeted risk assessment models that identify accounts that may have a high potential for overpayments or underpayments. When inaccurate account information is identified, recipient records and benefit payments are adjusted accordingly. In the past year, we have improved our validation program with the addition of CCTB, and GST/HST credit, marital status reviews, and the foreign address review. These new review processes have allowed us to review another 37,000 accounts.

This year, we met some challenges in our CCTB Program. The accumulation of CCTB overpayments that had to be recovered reached 0.9% of the total payments issued. This was an amount above our internal performance target of 0.4%. This situation was created in part by changes that came into effect in July 2011. Specifically, CCTB payments are now required to be adjusted to reflect any change in marital status the month following of its occurrence. Previously, recipients could wait until they filed their tax returns to advise CRA of any change in their marital status. The CRA took a number of steps to ensure that recipients were fully advised through correspondence, in publications, and on our Website of the new reporting requirements. As well, we streamlined our

Should you file a tax return?

Individuals may not be required to file a tax return if their income is modest, or if they do not have any tax payable. However, it may be in a person's best interest to file, even if not required to do so by legislation, as the filing of a tax return is often required in order to receive income tax based refunds, tax credits, or other provincial or territorial benefits. The CRA administers a number of benefits, like the guaranteed income supplement, that are calculated based on information reported in the income tax and benefit return.

procedures to allow CCTB recipients to quickly and easily change their marital status through our telephone enquiries services and online. However, these new reporting requirements have contributed to a short term increase in the percentage of CCTB overpayments that are required to be recovered.

Our validation activities ensure that we are delivering accurate benefits and credits to eligible Canadians, therefore ensuring the integrity and sustainability of the benefit and credit programs we deliver.

Key results:

- We reviewed 212,160 accounts, which represents a 23.5% increase from the previous year
- Because of our improved file selection process, 64% of the files reviewed required an adjustment resulting in an overpayment or underpayment, up from last year's result of 62.9%

[processing]

Timely payments are important for benefit recipients. In some cases, benefit payments make up a significant portion of the income needed by recipients to cover their daily expenses, and delayed payments can mean financial hardship. For this reason, we set high standards for the timely delivery of benefit payments. Our performance expectation reflects this with a target of 99% for timely issuance of benefit payments. As our results below show, we continue to surpass this stringent requirement.

Payments not only need to be timely, they also need to be correct. Just as taxpayers have an obligation to file income tax returns and accurately report their income, benefit recipients need to promptly notify us of any changes to their personal information to maintain the eligibility and accuracy of their entitlements. For our part, we promise to complete account changes quickly. This past year, we once again surpassed all of our service standards.

Key results:

- We issued over 123 million payments to 12 million individuals and families on behalf of the federal, provincial, and territorial governments
- 99.99% of these payments were issued on time
- We processed over 694,000 applications and marital status changes
- We completed over 751,000 account maintenance adjustments
- We processed approximately 969,000 GST/HST credit account redeterminations

[conclusion]

In 2012-2013, we continued to improve our information provision and interactive services by simplifying our Web pages and offering new online tools. By continuing to improve our validation review processes and meeting our service standards associated with timely and accurate payment processing, we have shown the reliability of our services to our government partners and Canadians.

These improvements are helping us meet the evolving service expectations of our clients by providing them a convenient and user-friendly service experience. We are capitalizing on opportunities to simplify our procedures and integrate our services. Through these actions, we are helping to reduce the administrative burden placed on individuals while meeting the service and cost expectations of our government clients.

[performance **results**]

Expected results	Indicators	Target	2010-2011	2011-2012	2012-2013
Canadians have access to the benefits and credits to which they are entitled, and related payments are timely and correct	Percentage of benefit related files reviewed that meet the accuracy target set for validation & compliance activity	90%	96.3%	98.1%	96.6%
	Percentage of benefit applications and marital status change forms processed on time	98%	98.7%	99%	99.8%
	Percentage of accurate payments when processing account maintenance adjustments	98%	98.2%	96.6%	99%
	Percentage of benefits payments received by benefit recipients on time	99%	99.8%	99.96%	99.99%
	Percentage of Canada child tax benefit recipients who provide complete and accurate information, that receive the proper entitlement	95%	95.5%	N/A[1]	95%
Benefit recipients are provided timely and accurate eligibility determinations and payments, and have access to timely and accurate information	Percentage of the 10 service standards in force for benefit administration and enquiries which have met targeted performance standard	100%	70%	70%	100%
	Canada child tax benefit overpayment debt as a percentage of payments issued	Less than 0.4%	0.4%	0.6%	0.9%
Benefit recipients have access to timely and accurate responses to their telephone enquiries	Percentage of Canada child tax benefit and GST/HST credit calls answered within two minutes of entering the agent queue	75%	76.7%	76.3%	77.5%
	Percentage of Canada child tax benefit and GST/HST credit callers who succeed in reaching CRA telephone service (agent or automated)	85%	91.1%	90.5%	92%
	Percentage of accurately updated internal reference materials for benefit services agents	100%	100%	100%	100%
Benefit and credit eligibility determination and payment processing are timely and accurate	Percentage of the five benefit and credit application/maintenance service standards in force which meet stated service target	100%	80%	80%	100%
	Percentage of Canada child tax benefit and GST/HST credit accounts targeted under validation programs that were adjusted (validation and control)	50%	51.2%	62.9%	64%
	Level of satisfaction with benefit application processing time	75%	82.4%	80.4%	81.6%

[1] The study that produces this result is performed every two years.

We continue to
modernize
how we deliver **services**

[internal **services**]

[program **description**]

The CRA's internal services provide an important part of the overall effectiveness of our program delivery. We recognize that our success as an organization is built on a solid corporate foundation that is sustained by sound financial management, secure and reliable information technology infrastructure, and a diverse and high-performing workplace. To ensure that the CRA remains a world-class tax administration, we are committed to integrating our internal services across the full spectrum of our tax and benefit programs to ensure we continue to modernize how we deliver services.

2012-2013 financial resources (thousands of dollars)

Total budgetary expenditure	Planned spending[1]	Total authorities	Actual spending[2]	Difference
1,271,936	1,007,700	1,112,486	**960,309**	47,391

Numbers may not add due to rounding.

[1] Planned spending has been restated from what was shown in the Canada Revenue Agency *2012-2013 Report on Plans and Priorities* in order to distribute the real property accommodations funding (previously centralized in the internal services program) to all applicable programs. It should also be noted that planned spending excludes severance payments, parental benefits and vacation credits, as this funding is received during the fiscal year and is only included in actual spending.

[2] This figure represents the actual spending for the program on a modified cash basis. Please refer to page 156 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

2012-2013 human resources (full-time equivalents)

Planned	Actual	Difference
8,567	**8,041**	526

Numbers may not add due to rounding.

[performance **analysis** and **lessons** learned]

[**human** resources]

During a year characterized by change in the public service and at the CRA, we continued to improve our human resources regime to ensure that we have the knowledgeable and committed workforce needed to successfully deliver our programs. Across the CRA, approximately 40,000 employees contribute to the administration of our tax programs as well as the successful delivery of economic and social benefits to Canadians.

Key results:

- The CRA updated its Strategic Workforce Plan, including the rejuvenation of its recruitment strategy to meet current workforce requirements and support future business needs. In September 2012, we launched initiatives aimed at recruiting auditors from the private sector to sustain our technical capacity
- We created a new leadership development program to ensure we have the right leaders in place to meet our current and future needs
- We implemented a new integrity framework containing a complete system of policies, procedures, and tools to strengthen the management of integrity at the CRA and ensure that we sustain the public's trust

The 2012-2013 period saw the wind down of the harmonized sales tax initiative with the province of British Columbia which is returning to the PST/GST model effective April 1, 2013. Under an agreement between the CRA and the province of BC, the province made job offers to its former employees that joined the CRA as a result of the HST implemented in July 2010. The Government of Canada also signed an agreement with the province of Prince Edward Island to implement a harmonized sales tax effective April 1, 2013.

The CRA continued to manage changes in operational authorities related to staffing, including the 700 employees that have transferred to Shared Services Canada. The CRA has developed a multi-year human resources plan to proactively manage savings measures through attrition, vacancy management, decreases in new hiring, and workforce adjustment when necessary. This plan will also help us achieve our savings objectives and build a workforce with the skills necessary to meet future Agency business goals.

[information **technology**]

Information technology (IT) is critical to the CRA's capacity to continue to deliver a world-class tax and benefits administration to Canadians. The CRA has a strong IT planning program in place and our IT strategy is an integrated part of our formal business planning processes. This integrated approach ensures that we will continue to have sustainable, reliable, and secure business application systems that fully support our CRA program business lines.

Our IT infrastructure has continued to provide the CRA with the capacity needed to support both current and emerging business needs. The important role that information technology plays in enabling new service and compliance innovations at the CRA can not be over stated. As an organization, our ability to innovate and move forward is empowered through the use of information technology. For example, our IT systems successfully processed over 18 million tax returns that were electronically filed between February and April 2013. Our busiest electronic filing day was April 30, 2013, when we received 1,232,048 returns without incident, and there were no major service disruptions during the entire 2013 tax-filing season.

Key results:

- Work continued on the redesign of our individual income tax return processing system. This redesign will ensure a robust, flexible, and sustainable technology platform for our personal income tax program
- Through our collaboration with Shared Services Canada, we have ensured that our new state-of-the-art data centre has the IT capacity and flexibility necessary to meet our current and future business requirements
- Our internal IT helpdesk support was consolidated to offer centralized service support to core business programs and to meet evolving service needs. This resulted in a reduction of IT operating costs of $2.3 million
- A business intelligence (BI) framework and roadmap was developed to help guide the development of the necessary BI technology platform needed for advanced reporting and business analytics

We will continue to have **sustainable, reliable, and secure** business application systems

This year, the CRA received two Government Technology Exhibition and Conference 2012 distinction awards for demonstrating leadership and excellence in the innovative management and application of information technologies for our business intelligence foundation project and our GST/HST pre-assessment national inventory project.

In November 2011, Shared Services Canada became responsible for delivering email, data centre, network, and telephony services across the federal public service. In 2012-2013, we established a governance model between the CRA and Shared Services Canada. It defines the priorities and responsibilities related to our business relationship, taxpayer confidentiality, and data security. We have also completed the payroll transfer of all former CRA employees now working for Shared Services Canada.

[**finance** and **administration**]

The CRA effectively and efficiently manages one of the largest budgets in the Government of Canada (spending details are available starting on page 96). To manage our resources, we ensure that all investments are aligned with our strategic directions and priorities.

Key results:

- We are on target to meet all of our financial commitments
- We have updated our resource management strategy to support key government savings initiatives by providing regular assessments of the CRA's financial position
- We completed the chief executive officer and chief financial officer certification process to assure a strong system of controls over financial management and reporting (additional information about the systems of internal control over financial reporting can be found on page 149)

To support government efforts to reduce operating costs, the CRA implemented a new approach to the provisioning of office space. In 2012-2013, we developed a portfolio plan that will reduce the CRA office space footprint by at least 72,000 square meters. This new approach will save the CRA $33.5 million annually.

[security and integrity]

Protecting taxpayers' privacy and confidentiality is central to the integrity of the CRA and Canada's tax system. To meet their tax obligations or apply for benefits, Canadians must give us personal and financial information. The CRA takes its responsibility to safeguard this information very seriously. Canadians trust that their information is only accessed for authorized purposes, and that it is handled with the utmost security. We are committed to maintaining strong internal controls to prevent the inappropriate access, use, and disclosure of information.

Key result:

- We strengthened our processes and controls ensuring that employees only have access to the systems required to perform their job functions
- We updated our emergency plan to maintain the uninterrupted delivery of programs (such as benefit payments) in the case of emergency

[communications]

Effective communications allow the CRA to inform Canadians about tax and benefit services.

Key results:

- We developed a marketing strategy to promote our electronic services and respond to the service expectations of taxpayers and benefit recipients
- The CRA has actively supported the Government of Canada's Web renewal initiative to modernize the Government's online presence, and meet accessibility standards for Canadians with disabilities, including Web sites and social media
- This filing season, we implemented an initiative to reduce printing cost and support online services. We sent personalized letters to affected taxpayers detailing the changes and outlining the filing options available to them

As with all federal departments and agencies, the CRA is subject to the provisions of the *Access to Information Act* and the *Privacy Act*. These acts give Canadians the right to access information that is under the control of a government institution. In 2012-2013, we received 3,137 access to information requests, 85% of which were completed on time. We also received 1,980 privacy requests, and completed 93% of them within statutory limits.

[contribution to the federal sustainable development strategy]

The CRA supports the federal sustainable development strategy and contributes to the greening government operations, through our internal services program. We contribute to the following target areas of theme IV (shrinking the environmental footprint – beginning with government) of the federal sustainable development strategy:

- greenhouse gas emissions;
- electronic waste;
- managed print;
- internal paper consumption;
- green meeting guide; and
- green procurement.

Theme IV
Shrinking the environmental footprint beginning with government

Chief Privacy Officer

Following the recommendation of the Privacy Commissioner of Canada, we appointed the CRA's first chief privacy officer in 2013. This role was established to help ensure that the CRA's respect for the privacy of the information we maintain is reinforced and strengthened in the future. The Chief Privacy Officer has a broad mandate for privacy oversight in the CRA. Our responsibility for sound privacy management goes beyond the appointment of the chief privacy officer and is a shared responsibility of all employees.

Additional information on CRA greening government operations activities can be found on the CRA website at: www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html.

Key results:

- Office paper use was reduced by an additional 2%
- We implemented a national initiative to reduce the number of printing units, and achieved a 9.3:1 average ratio of employees to printing units
- We achieved 15.4% green procurement for goods and services, and reached a 96% level of procurement officers trained in green procurement
- As a result of our effort to reduce travel expenses, greenhouse gas emissions from our fleet of vehicles decreased by 19.6%, surpassing our planned target by 2%
- Sustainable development clauses and environmental specifications were included in three new contractual arrangements valued at over $1 million

[**management** oversight]

To ensure we meet our management oversight responsibilities, the CRA uses two complementary tools: the Management Accountability Framework (MAF) assessment conducted by the Treasury Board of Canada Secretariat and the Board of Management Oversight Framework (BoMOF) assessment, conducted by our Board of Management. Together, these two assessment tools provide a comprehensive evaluation of the CRA's management performance.

The 2012-2013 MAF assessment examined integrated risk management and financial management and control, for which the CRA received a strong (risk management) and an acceptable (financial management and control) rating. Our Board of Management conducted its sixth assessment of performance, covering areas for which they have oversight responsibility as outlined in the *Canada Revenue Agency Act*. Of the 12 areas reviewed this year, eleven were found to be "strong" or "acceptable" and one presented an "opportunity for improvement". The positive results of these assessments should provide Canadians with assurances that the CRA is actively pursuing management excellence.

Additional information on these CRA performance assessments is available electronically at:

- MAF assessment – please visit www.tbs-sct.gc.ca/maf-crg/methodology-methodologie-eng.asp
- BoMOF assessment – please go to www.cra-arc.gc.ca/gncy/bomof-cscd/ssmnt-eng.html

[**conclusion**]

During the past year, we worked to ensure that we have the people, infrastructure, and resources required to maintain our world-class tax administration. We are taking a strategic approach to human resource planning and are developing the capable and confident workforce we require to generate the innovative solutions needed to meet the evolving service needs of Canadians. To ensure the CRA continues to meet future challenges, we are investing in infrastructure and technology platforms to support our core operations. These investments are balanced and grounded in sound financial management practices and will continue to create efficiencies, ensure sustainability, and support future innovations in the delivery of our programs and services.

We are improving the support we provide to taxpayers and benefit recipients by making it easier for them to use our Web sites, find answers to their questions, and do routine transactions online. In this way, we are easing the compliance burden and helping Canadians meet their tax obligations and receive accurate benefits and credits. For those who understand their obligations but fail to comply, we are enhancing our compliance enforcement programs and taking swift and appropriate action to ensure compliance.

We are achieving our strategic outcomes through innovation and a commitment to service excellence, compliance enforcement, and integrity. We believe that Integrity forms the bedrock of our self-assessment system and we understand that the trust and confidence Canadians place in their tax system is a direct result of the CRA's commitment to conducting its administration with total integrity.
As we move forward, the CRA will continue to be guided by our corporate core values of integrity, professionalism, cooperation, and respect, and we will continue to demonstrate that the trust and confidence Canadians have placed in our administration is well founded.

innovative leadership engaged and collaborative **culture**

Members of the Board of Management (left to right)

Bottom Row: Fauzia Lalani, Andrew Treusch, Susan J. McArthur, Sylvie Tessier, Margaret Melhorn

Top Row: Richard (Rick) Thorpe, Luce Samoisette, Myles Bourke, Richard J. Daw, Gordon Gillis, James R. Nininger, Raymond Desrochers, Gerard J. Fitzpatrick, Norman G. Halldorson, Robert (Bob) M. Manning

[section 3: Agency **governance** and the **Board of Management**]

The Board of Management (the Board) comprises 15 directors, from across Canada and appointed by the Governor in Council, who offer the Canada Revenue Agency (CRA) an external and diverse business perspective from the private, public and not-for-profit sectors. The Board is mandated, under the *Canada Revenue Agency Act*, to oversee the organization and administration of the CRA, and the management of its resources, services, property, personnel and contracts.

The Board undertakes its oversight role in cooperation with CRA management to ensure that the CRA has a robust strategic framework to support the core programs it delivers and the implementation of its long-term strategic direction – Vision 2020; and that sound management practices are in place.

[board **priorities** and **accomplishments** for 2012-2013]

The Canada Revenue Agency had a challenging year based on a number of factors including: establishing spending reduction targets across the Agency and, specifically, in the national capital region; managing the evolution of Shared Services Canada; and ensuring the core business of the Agency of delivering tax and benefit services to Canadians was maintained. This was done while evolving the strategic plan which would enable the Agency to implement a number of transformative measures aimed at ensuring cost reduction and efficiency gains. The Board strongly feels that the Agency delivered on these key commitments.

In addition, the Board witnessed its own changes, as the Board prepared to bid farewell to Ms. Susan J. McArthur, whose term as Chair of the Board ended on August 3, 2013, and welcomed the arrival of Mr. Andrew Treusch as Commissioner and Chief Executive Officer, and Ms. Margaret Melhorn, who was nominated by the Northwest Territories.

In support of the Agency during this reporting period, the Board continued to provide oversight in all areas for which it has statutory responsibilities as stated in the *Canada Revenue Agency Act* – Administration of the CRA, Organization of the CRA, Management of Resources, Management of Services, and Management of Personnel, in line with the Board's priorities, as articulated in the CRA's Corporate Business Plan 2012-2013 to 2014-2015.

[**strategic** outlook and **oversight** of the **change** agenda]

In 2012-2013, the Board oversaw the ongoing successful implementation of a robust strategic agenda known as Vision 2020. Vision 2020 forms the basis of a transformative agenda aimed at moving the CRA into a more agile and innovative entity that provides more effective and efficient service to Canadians. The Board monitored implementation progress in areas such as; changes to services and electronic service delivery, human resources and financial impacts, and workforce development.

In addition, the Board continued to provide guidance and direction in the development of the Corporate Business Plan (CBP), one of its key roles. As such, the Board approved the CBP 2013-2014 to 2015-2016 which set out the strategies that will enable the CRA to continue to make progress toward Vision 2020, keep in step with government priorities, and to build the workplace and workforce it needs to succeed. The Board also continued to monitor the Agency's Corporate Risk Profile and the development of performance indicators, which will enable it to assess the overall performance of the CRA and measure success in achieving its strategic objectives.

To ensure that the CRA's internal accountability structure continues to be aligned with plans and priorities identified in the CBP, the Board continues to provide input to senior executive performance agreements and to monitor and assess their performance. To this end, in 2012-2013, the Board set clear performance expectations for the Commissioner-Chief Executive Officer (CEO) at the beginning of the year, monitored progress and assessed performance at the end of the year. Similarly, the Board contributed to the performance agreements and assessments of key senior executives including the Chief Financial Officer (CFO); the Chief Audit Executive; and Assistant Commissioners of the Information Technology, Human Resources, and Strategy and Integration branches.

As in previous years, the Board assured itself that the CRA has a rigorous approach to resources management. This was important this past year, given the context of implementation of the Agency's transformation and spending reduction measures while staying focused on the delivery of its core business. To this end, the Board monitored CRA's planned allocation of resources, performance and spending. In addition, the Board assured itself that the CRA continued to improve its controls over financial management and reporting, and the security and protection of taxpayer information.

The Board and CRA's management continued to pursue enhancements to the Board of Management Oversight Framework (BoMOF) and the annual assessment of performance using a risk-based approach. As a key accountability instrument that complements the Management Accountability Framework assessment managed by the Treasury Board Secretariat, this year the BoMOF assessment focused on 12 key management expectations of strategic importance such as Management of Business Change, Agency Performance Indicators and Integrity.

[**meeting** service **needs**]

During the reporting period, the Board oversaw the CRA's provision of services to Canadians, including the security of tax and benefits information, to ensure the needs of taxpayers and businesses are met in a fair, professional and respectful manner. As such, the Board reviewed annual updates regarding the CRA Service Strategy, service standards and service complaints. The Board also reviewed special edition reports from the Taxpayers' Ombudsman and engaged with CRA on efforts to address service-related concerns and potential transformation agenda impacts on services.

With the ongoing implementation of CRA's transformation agenda, the Board provided insights and guidance on the CRA's approach for its integrated Service Strategy for 2013-2014 to 2015-2016, which sets out goals and deliverables for service, integrity and compliance. The strategy's roadmap will advance the CRA's Vision 2020 strategic directions by setting out initiatives the Agency will implement over the next one to three years to improve services to Canadians and ensure all taxpayers pay their fair share while maintaining Canadians' trust.

[**information** technology **responsiveness** and **sustainability**]

Information technology (IT) remains an integral part of the CRA's capacity to efficiently and effectively deliver its core programs and successfully implement its transformation initiatives. Therefore, during the planning period, the Board continued to provide oversight of major information technology projects, including the T1 Systems Redesign and a new data centre designed to support increased business operations and ensure continuity. It further strengthened project oversight through the use of independent third party reviews. The Board approved the CRA's IT Strategy and Plan 2012-2015 and the Information and Technology Security Strategy 2012-2015. The Board also monitored the Agency's Strategic Investment Plan to ensure it remains prudently focused on sustaining aging applications, while continuing to invest in the Agency's vision for the future.

The Board monitored the evolution of the CRA's Operating Protocol 2013-2014 with Shared Services Canada (SSC) and the SSC-CRA IT Governance Framework to ensure that the CRA's business programs continue to be well served, with quality and cost effective IT infrastructure services. The Board also provided direction into the development of the SSC-CRA Relationship Assessment Framework and future reporting mechanisms, in support of an effective, productive working relationship with SSC.

[**workforce** and **workplace** of the **future**]

The Board monitored the Agency's Strategic Human Resources change management approach to enable a successful transformation and sustained workforce engagement.

Through timely discussions on Executive Cadre (EC) Succession Planning, the Board assured itself that the CRA possesses the leadership capacity, talent, and skill sets required to lead and manage transformation and business change. Of note, CRA's management sought guidance and insights from the Board regarding combining the positions of Chief Risk officer and Chief Audit executive and merging of the Audit and Evaluation Branch with the Enterprise Risk Management Branch, an initiative that addressed succession, workforce synergies and efficiency gains, without compromising the independence of either the internal audit or the risk management function. The Board also provided direction and guidance on CRA talent management and recruitment efforts.

The Board approved strategies and policies aimed at strengthening the culture of excellence and integrity and sustaining a respectful, healthy and innovative work place of the future. Of note were an update to the CRA Code of Ethics and Conduct, the Work Place Violence Prevention Policy, the Occupational Health and Safety Policy, the Staffing Program Policy and an update to the Agency Strategic Workforce Plan 2012-2013.

Bill C-45 "*Jobs and Growth Act 2012*" introduced legislative changes to the *Canada Revenue Agency Act*. The Board therefore recommended to the President of the Treasury Board the Collective Bargaining Mandate with the Public Service Alliance of Canada – Union of Taxation Employees, and closely monitored the collective bargaining negotiations. As in the past, the Board continues to carefully balance the interests of the CRA while keeping in mind government wide considerations.

[board **governance**]

The Board continues to function in an effective and efficient manner that successfully supports the operations and transformation agenda of the CRA.

The Board conducted the 2012 Board Evaluation with participation of key members from CRA senior management. In response to the survey results, a way forward for enhancements of Board engagement, processes and practices was developed and implemented. The year was also marked by close collaboration with senior management to increase time for key strategic discussions at Board meetings, and leverage Board expertise and engagement as part of these discussions.

[**conclusion**]

The Board is confident that, again this year, it continued to provide strong oversight of the organization and administration of the CRA, in those areas under its purview, while providing management with real time strategic insights and guidance, to better position the Agency for the future.

[board **membership**]

The Board of Management of the CRA is made up of 15 members appointed by the Governor in Council. They include the Chair, the Commissioner and Chief Executive Officer, a director nominated by each province, one director nominated by the territories, and two directors nominated by the federal government. Members of the Board bring an external and diverse business perspective from the private, public, and not-for-profit sectors to the work of the CRA.

The Board is mandated to oversee the organization and administration of the CRA, and the management of its resources, services, property, personnel and contracts. It undertakes its oversight role in cooperation with CRA management to ensure the CRA fosters sound management and service delivery.

The following are the Board members, as of March 31, 2013.

Susan J. McArthur, B.A., ICD.D
Chair, Board of Management
Senior Investment Banker
Jacob Securities Inc.
Toronto, Ontario

Myles Bourke, B.Comm., FCPA, FCA
Corporate Director
Lethbridge, Alberta

Richard J. Daw, FCA, CMC
Senior Counsel
Deloitte
St. John's, Newfoundland and Labrador

Raymond Desrochers, B.Comm., CA, CFE
Partner
BDO CANADA LLP Chartered Accountants & Consultants
Winnipeg, Manitoba

Gerard J. Fitzpatrick, FCA, TEP
Partner
Fitzpatrick & Company Chartered Accountants
Charlottetown, Prince Edward Island

Gordon Gillis, B.A., LL.B.
Corporate Director
Eureka, Nova Scotia

Norman G. Halldorson, B.Comm., CA, FCA
Corporate Director
Clavet, Saskatchewan

Fauzia Lalani, P.Eng.
Director, Logistics Services
Suncor Energy Services Inc.
Calgary, Alberta

Robert (Bob) M. Manning, B.B.A.
Associate
Owens MacFadyen Group
Saint John, New Brunswick

Margaret Melhorn, BA, MA
Corporate Director
Yellowknife, Northwest Territories

James. R. Nininger, B.Comm., M.B.A., Ph.D
Corporate Director
Ottawa, Ontario

Luce Samoisette, LL.M., MS Taxation, DDN, LL.B.
President
Université de Sherbrooke
Sherbrooke, Quebec

Sylvie Tessier, B.Sc, M.B.A., P.Eng., ICD.D
Director of Professional Services
Hewlett Packard Software and Solutions
Toronto, Ontario

Richard (Rick) Thorpe, CMA, FCMA
Corporate Director
Penticton, British Columbia

Andrew Treusch, B.A., M.A.
Commissioner of Revenue and Chief Executive Officer
Canada Revenue Agency
Ottawa, Ontario

[committee **membership** and **director** participation]

The Board of Management is supported by four committees that undertake much of the detailed review of items brought before the Board for the Board's consideration. The following table shows the membership of each committee as well as directors' committee attendance over the course of the 2012-2013 fiscal year.

Board members	Board of management (8 meetings)[1]	Audit committee (6 meetings)[2]	Governance committee (4 meetings)[3]	Human resources committee (8 meetings)[4]	Resources committee (4 meetings)	BoMOF sub-committee (3 meetings)
Board members present throughout the fiscal year						
Myles Bourke	8/8	6/6	4/4			
Richard J. Daw	8/8	6/6				
Raymond Desrochers	6/8		4/4			
Gerard J. Fitzpatrick	7/8	5/6				
Gordon Gillis	8/8		4/4	8/8		3/3
Norman G. Halldorson	8/8	6/6				3/3
Fauzia Lalani	8/8				4/4	3/3
Robert (Bob) Manning	7/8				4/4	
Susan J. McArthur	8/8	5/6	4/4	7/8	3/4	3/3
James R. Nininger	6/8		4/4	7/8		2/3
Luce Samoisette	5/8			8/8		
Sylvie Tessier	8/8		4/4		4/4	
Richard (Rick) Thorpe	6/8				4/4	
Board members who joined during the fiscal year						
Margaret Melhorn	3/3					
Andrew Treusch	2/2	1/1		2/2	1/1	2/2
Board members who departed during the fiscal year						
John V. Firth	4/5			5/5		
Linda Lizotte-MacPherson	4/4	4/4		4/4	2/2	1/1
Deputy/Acting Commissioner						
William Jones	2/2	1/1		2/2	1/1	
Average attendance per meeting	**108/120=90%**	**34/36=94%**	**24/24=100%**	**43/45=96%**	**23/24=96%**	**17/18=94%**

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[1] Board meetings and teleconferences.

[2] The six meetings include two discussions of financial statements. The Commissioner-Chief Executive Officer attended as an observer in regular closed sessions of the Audit Committee.

[3] The four meetings include a Board evaluation teleconference.

[4] The eight meetings include four meetings to discuss collective bargaining.

Governor in Council rates of pay		
Member capacity	**Per annum retainer**	**Per diem**
Board chair	$14,500 - $17,100	$565 - $665
Committee chair	$11,100 - $13,000	$565 - $665
Director	$7,300 - $8,600	$475 - $550

Source: www.appointments-nominations.gc.ca

building
together

[section 4: other items of **interest**]

[organizational **structure**]

The Honourable Kerry-Lynne D. Findlay
Minister of National Revenue
The minister is responsible for the Canada Revenue Agency.

Richard (Rick) Thorpe
Chair, Board of Management
The Board is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel, and contracts.

Andrew Treusch
Commissioner of Revenue and Chief Executive Officer
The commissioner is the chief executive officer of the CRA and is responsible for its day-to-day management and direction.

Bill Jones
Deputy Commissioner
The deputy commissioner supports the commissioner and chief executive officer in the day-to-day management and direction of the CRA.

Anne-Marie Lévesque
Assistant Commissioner
Appeals

Dave Bennett
Assistant Commissioner
Assessment and Benefit Services

Richard Montroy
Acting Assistant Commissioner
Compliance Programs

Brian McCauley
Assistant Commissioner
Legislative Policy and Regulatory Affairs

Michael Snaauw
Assistant Commissioner
Taxpayer Services and Debt Management

Peter Estey
Assistant Commissioner
Atlantic

Darrell Mahoney
Assistant Commissioner
Ontario

Maureen Phelan
Assistant Commissioner
Pacific

Cheryl Bartell
Assistant Commissioner
Prairie

Gabriel Caponi
Assistant Commissioner
Quebec

Brian Philbin
Assistant Commissioner
and Chief Audit Executive
Audit, Evaluation, and Risk

Roch Huppé
Assistant Commissioner
and Chief Financial Officer
Finance and Administration

Diane Lorenzato
Assistant Commissioner
Human Resources

John Messina
Assistant Commissioner
and Chief Information Officer
Information Technology

Micheline Van-Erum
Assistant Deputy Attorney General
Legal Services

Susan Gardner-Barclay
Assistant Commissioner
and Chief Privacy Officer
Public Affairs

Catherine Bennett
Assistant Commissioner
Strategy and Integration

As of October 2013

[detailed **tax** debt **management** action **plans**]

These plans track actions to address the recommendations of the Standing Committee on Public Accounts (PACP) and the Office of the Auditor General of Canada (OAG) for how the CRA collects tax debt.

Risk management

The CRA's strategy to improve the risk management of its collections program will address the OAG's recommendation (8.52) that: "The Canada Revenue Agency should establish a more comprehensive automated risk-scoring system for tax debt, update the risk scores on an ongoing basis, and use the risk scores to prioritize workload throughout the collections process." PACP reference #2

specific commitment(s) and deliverables	target date	progress
Fully operational risk scores are scheduled for GST/HST programs.	2014	The data mining models for the GST/HST business revenue lines were developed and completed at the end of March 2013. Work for automating the data mining models is underway and deployment is planned for 2014-2015.

Performance reporting

The CRA's strategy to improve how it reports on the performance of its collections program will address the OAG's recommendation (8.41) that: "The Canada Revenue Agency should significantly improve its management information to make it complete and comprehensive. It should develop reliable techniques and information sources to determine on a regular basis the results of its collection efforts and use that information to guide its decision-making for each of its major collection modes and actions." PACP reference #5

specific commitment(s) and deliverables	target date	progress
Performance reporting tools are scheduled to be progressively implemented throughout all major business revenue lines.	2014	The performance reporting solution for T1 Collection was deployed in June 2012. Development work on a similar solution for GST/HST and T2 Collections is in progress.

Debt management research

The CRA's strategy to improve its debt management research will address the OAG's recommendation (8.28) that: "The Canada Revenue Agency should identify and collect the data it needs to analyze the makeup of its tax debt and to develop better collection strategies." (considering a variety of factors including fluctuations in the economic cycle) PACP reference #4.

specific commitment(s) and deliverables	target date	progress
Enhance business intelligence environment: build enhanced analytical capacity using Integrated Revenue Collection data analysis enhancements.	2013 for business programs	In 2011-2012, Integrated Revenue Collection incorporated the T2 accounts receivable information into the business intelligence environment. The GST/HST (collections and compliance) and T1/T2 non-filers information was deployed into the business intelligence environment in April 2013.
Research into economic indicators: develop research approach and conduct study.	Ongoing	In 2012-2013, debt management research: • completed a comprehensive research series on the T1 non-filer population; • completed a research series on T2 source and disposition of tax debt; • completed a first report related to source and disposition of GST/HST; • continued work on trend analysis and economic indicators; and • included a study on the employer population.

[**Benefit** programs and **benefit**-related services **delivered** by the **Canada** Revenue **Agency**]

Six federal benefit programs	
Canada Child Tax Benefit	Children's Special Allowances
Disability tax credit	Universal Child Care Benefit - on behalf of Human Resources and Skills Development Canada
Goods and services tax / harmonized sales tax credit	Working income tax benefit advance payments

Twenty-six ongoing benefit programs for provinces and territories			
	1st year		1st year
British Columbia – BC family bonus	1996	Newfoundland and Labrador child benefit	1999
Alberta family employment tax credit	1997	Newfoundland and Labrador seniors' benefit	1999
New Brunswick child tax benefit	1997	Saskatchewan low-income tax credit	2000
New Brunswick working income supplement	1997	Newfoundland and Labrador – mother baby nutrition supplement	2001
Newfoundland and Labrador harmonized sales tax credit	1997	Ontario child benefit	2007
British Columbia – BC earned income benefit	1998	British Columbia low income climate action tax credit	2008
Saskatchewan child benefit	1998	Ontario senior homeowners' property tax grant	2009
Northwest Territories child benefit	1998	Ontario sales tax credit	2010
Northwest Territories – territorial worker's supplement	1998	British Columbia harmonized sales tax credit	2010
Nova Scotia child benefit	1998	Nova Scotia affordable living tax credit	2010
Yukon child benefit	1999	Ontario energy and property tax credit	2011
Nunavut child benefit	1999	Northern Ontario energy credit	2011
Nunavut – territorial worker's supplement	1999	New Brunswick school supplement	2012

Ten one-time payment programs			
	1st year		1st year
Relief for heating expenses (federal)	2000	Energy cost benefit (federal)	2005
British Columbia – BC energy rebate	2001	Alberta 2005 resource rebate	2005
Alberta energy tax refund	2001	Ontario home electricity relief	2006
Ontario taxpayer dividend	2001	British Columbia climate action dividend	2008
Nova Scotia taxpayer refund	2003	Ontario sales tax transition benefit	2010

Eighty-five data exchange and data transfer services	
Fifty-two income verification data exchanges with provinces to support programs	Ten National child benefit supplement data exchanges with provinces and territories to facilitate the calculation of social assistance
Five data transfers with provinces to support top-ups for CRA-administered child benefit programs	Two data transfers of income and child information to support administration of the Ontario child care supplement and Quebec family allowance programs
Eight data exchanges and transfers to support the Nova Scotia pharmacare program, the British Columbia low income climate action tax credit, Ontario senior homeowners property tax grant, Ontario sales tax credit, Ontario energy and property tax credit/Northern Ontario tax credit, Ontario trillium benefit, BC harmonized sales tax credit and to assist the ministère du Revenu du Québec in administering the *Quebec Taxation Act*	Eight data exchanges and data transfers to support federal administration of the Employment insurance family supplement, Guaranteed income supplement, Canada learning bond, additional canada education savings grant, Registered disability savings plan and Canadian disability savings grant and Old age security

[service **standards**]

Canadians' confidence in the integrity of the tax system is essential to the CRA's success. Meeting our service standards shows that we are answering the needs of taxpayers and benefit recipients. Our service standards tell citizens what level of performance they can reasonably expect from the CRA under normal circumstances. We review our standards and targets every year and update them as needed.

New service standards 2012-2013

In 2012-2013, we introduced three new service standards:

- GST/HST credit enquiries telephone service level;
- Two-day acknowledgements of service complaints; and
- 30-day resolution of service complaints.

Our service standard results

Service	Standard	Target	2010-2011	2011-2012	2012-2013
Assessment of returns and payment processing					
Responding to taxpayer-requested adjustments (T1)	Complete the adjustment and mail a notice of reassessment within an average of eight weeks, provided all requisite information has been received from the taxpayer	100%	7.2 weeks	7 weeks	**7 weeks**
Responding to taxpayer-requested adjustments (T1) received by Internet	Complete the adjustment and mail a notice of reassessment within an average of two weeks, provided all requisite information has been received from the taxpayer	100%	1.8 weeks	1.8 weeks	**2 weeks**
Processing T1 individual income tax returns (paper)	Process a paper T1 return and mail a notice of assessment and refund, if applicable, in an average of four to six weeks	100%	3.9 weeks	3.9 weeks	**4.3 weeks**
Processing T1 individual income tax returns (EFILE, TELEFILE, NETFILE)	Process electronic T1 returns (EFILE, TELEFILE, and NETFILE) within an average of two weeks of receipt	100%	1.7 weeks	1.6 weeks	**1.6 weeks**
Processing T3 trust returns	Process T3 trust returns within four months	95%	98.5%	98.7%	**98.7%**
Processing excise tax, excise duty, softwood lumber returns, and air travellers security charge returns	Assess excise tax, excise duty, softwood lumber returns, and air travellers security charge returns within 90 days of receipt	95%	97.6%	98.2%	**98.4%**
Processing GST/HST returns	Process GST/HST returns within 30 calendar days of receipt	95%	90.3%	91%	**93.8%**
Processing T2 corporation income tax returns	Assess T2 returns (corporation income tax) within 60 days	90%	94.5%	95.2%	**95.2%**

Service	Standard	Target	2010-2011	2011-2012	2012-2013
Taxpayer and business assistance					
Charities – responding to telephone enquiries	Respond to calls in agent queue within two minutes	80%	84.4%	84.2%	**86.3%**
Charities – responding to simple applications	Respond to simple applications for charitable registration within two months, upon receipt of a complete application	80%	87.5%	85.9%	**94.5%**
Charities – responding to regular applications	Respond to regular applications for charitable registration within six months, upon receipt of a complete application	80%	95.5%	91.3%	**97.5%**
Advance income tax rulings	Issue advance income tax rulings within 90 business days of receipt of all essential information from the client	85%	N/A	N/A	**74%**
Technical interpretations	Issue technical interpretations within 90 business days of receipt of all essential information from the client	85%	N/A	N/A	**83%**
GST/HST rulings and interpretations – telephone enquiries	Respond to calls in the queue within two minutes	80%	86%	88%	**97%**
GST/HST rulings and interpretations – written enquiries	Respond to written requests for GST/HST rulings and interpretations within 45 business days of receipt in the CRA. This excludes highly technical and precedent and/or policy-setting rulings and interpretations	80%	46.5%	41.9%	**81%**
Applications to register pension plans	Complete a full review and provide a response on applications to register pension plans within 180 calendar days	85%	94.4%	83.9%	**90%**
Amendments to registered pension plans	Review pension plan amendments for compliance with the *Income Tax Act* within nine months	80%	77.1%	78.7%	**81%**
Retirement savings plans (applications to register, amend, or terminate)	Respond to applications to register, amend, or terminate retirement savings plans within 60 calendar days	80%	86.3%	94.4%	**96%**
Retirement income funds (applications to register, amend, or terminate)	Respond to applications to register, amend, or terminate retirement income funds within 60 calendar days	80%	94%	96.2%	**99%**
Education savings plans (applications to register, amend, or terminate)	Respond to applications to approve, amend, and terminate education savings plans specimen plans within 60 calendar days	85%	92.1%	97.5%	**91%**
Actuarial valuation reports	Review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions	80%	63.4%	50.7%	**52%**
Deferred income plans – response to written enquiries	Respond to written enquiries within 60 calendar days	80%	85.9%	88.3%	**98%**

Service	Standard	Target	2010-2011	2011-2012	2012-2013
Deferred profit sharing plans – reviewing applications	Review applications to register new deferred profit sharing plans within 180 days	80%	100%	98.1%	**100%**
Deferred profit sharing plans – amendments and terminations	Review requests to amend and to terminate plans within 270 days	80%	81.4%	93.7%	**97%**
General enquiries – telephone service level	Respond to calls in the agent queue within two minutes	80%	81.8%	80.1%	**82%**
Business enquiries – telephone service level	Respond to calls in the agent queue within two minutes	80%	84.1%	81.2%	**82%**
Reporting compliance					
Claims – SR&ED tax incentives – refundable claims	Process claims for tax incentives from businesses that conduct scientific research and experimental development in Canada within 120 calendar days from receipt of a complete claim for refundable claims	90%	96.5%	96.5%	**96%**
Claims – SR&ED tax incentives – non-refundable claims	Process claims for tax incentives from businesses that conduct scientific research and experimental development in Canada within 365 calendar days from receipt of a complete claim for non-refundable claims	90%	96.7%	96.7%	**96%**
Claims – SR&ED tax incentives – claimant-requested adjustments to refundable claims	Process claims for tax incentives from businesses that conduct scientific research and experimental development in Canada within 240 calendar days from receipt of a complete claim, for refundable claims related to adjustments requested to previously filed income tax returns	90%	96.8%	95.1%	**95%**
Claims – SR&ED tax incentives – claimant-requested adjustments to non-refundable claims	Process claims for tax incentives from businesses that conduct scientific research and experimental development in Canada within 365 calendar days from receipt of a complete claim, for non-refundable claims related to adjustments requested to previously filed income tax returns	90%	94.9%	94.5%	**94%**
Claims – video and film tax credits – refundable claims – unaudited	Review T2 corporation income tax returns that include claims for the Canadian film or video production tax credit, the film or video production services tax credit, the BC film and television tax credit, the BC production services tax credit, the Manitoba film and video production tax credit, the Ontario film and television tax credit, and the Ontario production services tax credit within 60 calendar days from the date of receipt when no audit action is undertaken	90%	94.8%	95.9%	**96.2%**

Service	Standard	Target	2010-2011	2011-2012	2012-2013
Claims – video and film tax credits – refundable claims – audited	Review T2 corporation income tax returns that include claims for the Canadian film or video production tax credit, the film or video production services tax credit, the BC film and television tax credit, the BC production services tax credit, the Manitoba film and video production tax credit, the Ontario film and television tax credit, and the Ontario production services tax credit within 120 calendar days from the date of receipt where audit action is undertaken	90%	91.2%	79%	**90.5%**
Appeals					
First contact letter for disputes	Acknowledge taxpayer disputes within 30 calendar days after we receive them	85%	N/A	N/A	**84%**[1]
Service complaints – two-day acknowledgement	Acknowledge receipt of the complaint within two business days.	80%	96.6%	97.2%	**92%**
Service complaints – 30 day resolution	Resolve the complaint within 30 business days	80%	91.8%	94.5%	**94.3%**
Problem resolution program – acknowledge receipt	Acknowledge receipt of a problem within two business days	95%	95.3%	97.6%	**98.2%**
Problem resolution program – resolution	Resolve the problem within 15 business days. If we cannot (for example, if a case is complex), we will make contact within that time to indicate an anticipated date of resolution	95%	95.3%	97.5%	**98.2%**
Benefit programs					
Canada child tax benefit enquiries – telephone service level	Respond to calls in the agent queue within two minutes	75%	76.4%	76%	**78%**
GST/HST credit enquiries telephone service level	Respond to calls in the queue within two minutes	75%	77%	76.6%	**77%**
Processing benefit applications and marital status change forms – timeliness	Issue a payment, notice, or explanation within 80 calendar days	98%	98.7%	99%	**99.8%**
Processing benefit applications and marital status change forms – accuracy	Accurately process the appropriate payment and notice and, if necessary, issue a letter requesting additional information	98%	99.1%	97.5%[2]	**98.7%**
Responding to benefit and credit enquiries – timeliness	Respond to written enquiries and telephone referrals from call centers within 80 calendar days	98%	94.9%	98.1%	**98%**

Service	Standard	Target	2010-2011	2011-2012	2012-2013
Responding to benefit and credit enquiries – accuracy	Respond to written enquiries and telephone referrals from call centers, with correct information, and accurately process new recipient information, including issuing a payment, notice, or letter	98%	98.6%	98.8%	**98.1%**
Validation and control – results of review	Inform you of the result of our review within 45 days after we receive the information requested	90%	96.4%	98.5%	**99%**
Processing a request to authorize or cancel a representative – timeliness (peak)	Process your request to authorize or cancel a representative received during peak tax time (mid-March to mid-July) within 20 business days of receipt by the CRA	90%	87.1%	89.8%[2]	**99.2%**
Processing a request to authorize or cancel a representative – accuracy (peak)	Accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information	98%	99.4%	99.7%	**99.4%**
Processing a request to authorize or cancel a representative – timeliness (non-peak)	Process your request to authorize or cancel a representative received during non-peak tax time, (mid-July to mid-March) within five business days of receipt by the CRA	90%	78.2%	88%	**95.5%**
Processing a request to authorize or cancel a representative – accuracy (non-peak)	Accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information	98%	99%	99.2%	**99.7%**
Internal services					
Taxpayer requests for statistical tax data	Respond to taxpayer requests for statistical data within an average of 30 calendar days	100%	14 days	17 days	**14 days**

When service standards are expressed in numbers of days, they refer to calendar days, unless otherwise specified.

Results for prior years have been revised based on updated information.

[1] The measurement has been revised, affecting comparability with previous-year results, to more accurately report results by calculating the period of time when the first contact letter is sent and received, as opposed to measuring performance once the file has been closed.

[2] The result for this service standard was re-stated due to an error in rounding.

Challenges and exceptions

Advance income tax rulings to taxpayers

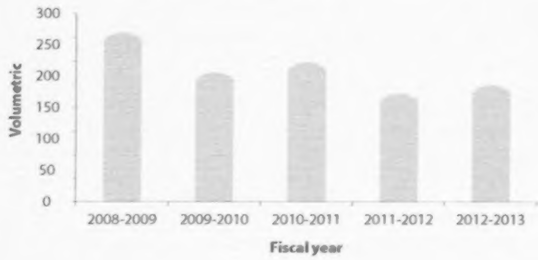
Standard: Issue advance income tax rulings to taxpayers within 90 business days of receipt of all essential information.

Target: 85%

2012-2013 result: 74%

This service standard was adjusted prior to 2012-2013 to extend the CRA's response window from 60 calendar days to 90 business days. The CRA had not met the prior standard since 2003-2004. Over the past year, resources from the Income Tax Rulings Directorate were devoted to two important initiatives: the development of income tax folios and the national technical capacity building forums. This shift in resources had some impact on the area's capacity to meet its service standard. We believe income tax folios are a long-term investment that will ultimately help us meet our service standard for advance income tax rulings.

figure 1 Total number of advance income tax rulings to taxpayers



Actuarial valuation reports

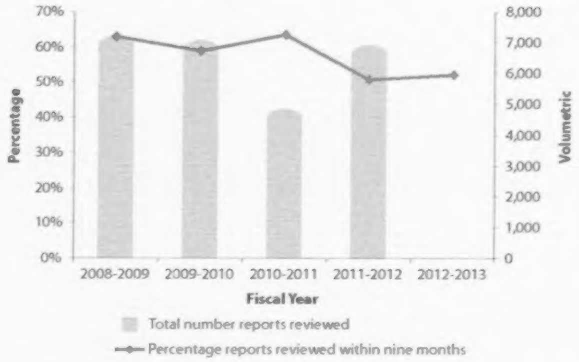
Standard: Review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions.

Target: 80%

2012-2013 result: 52%

This service standard continues to be not met and is expected to remain not met through 2013-2014. Steps are being taken to automate the reviews of lower-risk actuarial valuation reports, which is expected to be in place by April 2015.

figure 2 Actuarial valuation reports



New and revised service standards 2013-2014

In 2013-2014, we will be introducing four new service standards in:

- Charities – written enquiries – routine;
- Charities – written enquiries – complex;
- Processing a request to authorize or cancel a representative – paper; and
- Processing a request to authorize or cancel a representative – electronic.

We will also be making a revision in assessment of returns and payment processing, T2 corporation income tax returns, which will be broken down into two service standards, one for electronic and one for paper.

[end **notes**]

- BoMOF assessment, www.cra-arc.gc.ca/gncy/bomof-cscd/ssmnt-eng.html
- Business Registration Evaluation Report, www.cra-arc.gc.ca/gncy/ntrnl/2013/bsnss-rgstrtn-eng.html#h2
- Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals, www.ceaa.gc.ca/default.asp?lang=En&n=B3186435-1
- CRA financial statements, www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html
- CRA MAF assessment, www.tbs-sct.gc.ca/maf-crg/methodology-methodologie-eng.asp
- CRA sustainable development, www.cra-arc.gc.ca/sds/
- CRA unaudited financial information, www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html
- CRA Web site, www.cra-arc.gc.ca
- E-services for business, www.cra-arc.gc.ca/businessonline/
- Federal Sustainable Development Strategy, www.ec.gc.ca/dd-sd/
- Government of Canada outcomes, www.tbs-sct.gc.ca/ppg-cpr/frame-cadre-eng.aspx
- Government of Canada Tax Expenditures, www.fin.gc.ca/purl/taxexp-eng.asp
- Public Accounts of Canada 2012, www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html
- Summary of the assessment of effectiveness of the systems of internal control over financial reporting and the action plan of the Canada Revenue Agency, www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html
- Tax Appeals Evaluation, www.cra-arc.gc.ca/gncy/ntrnl/2012/txpplsvltn-eng.html
- Treasury Board of Canada Secretariat, www.tbs-sct.gc.ca/tbs-sct/index-eng.asp

[**organizational** contact **information**]

Appropriate minister

The Honourable Kerry-Lynne D. Findlay, P.C., Q.C., M.P.
Minister of National Revenue

Institutional head

Andrew Treusch,
Commissioner of Revenue and Chief Executive Officer

Constituent act

Canada Revenue Agency Act, [1999, c. 17]

Year of incorporation/commencement

1999

Mandate

The Canada Revenue Agency is responsible for: supporting the administration and enforcement of program legislation; implementing agreements between the Government of Canada and the government of a province, territory, or other public body performing a function of government in Canada; implementing agreements or arrangements between the CRA and departments or other agencies of the Government of Canada; and implementing agreements between the Government of Canada and First Nations governments to administer a tax.

Head office

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Telephone: 613-957-3688
Fax: 613-952-1547
Website: www.cra-arc.gc.ca

Statement of Management Responsibility Including Internal Control over Financial Reporting

We have prepared the accompanying financial statements of the Canada Revenue Agency (CRA) according to accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in Note 2 to the financial statements. Some of the information included in the financial statements, such as accruals and the allowance for doubtful accounts, is based on management's best estimates and judgment, with due consideration to materiality. The CRA's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the Public Accounts of Canada and included in the CRA's Annual Report, is consistent with these financial statements.

To fulfill its accounting and reporting responsibilities, management maintains sets of accounts which provide records of the CRA's financial transactions. Management also maintains financial management and an effective system of internal control over financial reporting (ICFR) that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament, and by others such as provinces and territories, are executed in accordance with prescribed regulations and the *Financial Administration Act*, and are properly recorded to maintain the accountability of funds and safeguarding of assets.

Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The CRA also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization, and by conducting an annual assessment of the effectiveness of its system of ICFR. An assessment for the year ended March 31, 2013 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments. The effectiveness and adequacy of the CRA's financial management and its system of internal control are reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the CRA's operations and by the Board of Management which is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts independent audits and expresses separate opinions on the accompanying financial statements which do not include an audit opinion on the annual assessment of the effectiveness of the CRA's internal controls over financial reporting.

Approved by:

Andrew Treusch
Commissioner of Revenue and
Chief Executive Officer of the CRA

Roch Huppé
Chief Financial Officer and Assistant Commissioner,
Finance and Administration

Ottawa, Ontario
August 26, 2013

Canada Revenue Agency Financial Statements – Agency Activities

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying financial statements of the Agency Activities of the Canada Revenue Agency, which comprise the statement of financial position as at 31 March 2013, and the statement of operations and agency net financial position, statement of change in agency net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at 31 March 2013, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Michael Ferguson, CPA, CA
FCA (New Brunswick)
Auditor General of Canada

26 August 2013
Ottawa, Canada

Statement of Financial Position – Agency Activities

as at March 31
(in thousands of dollars)

	2013	2012
Liabilities		Restated (Note 3)
Accrued salaries	84,546	78,257
Accounts payable and accrued liabilities (Note 5)	118,466	152,187
Vacation pay and compensatory leave	187,625	182,977
Employee severance benefits (Note 6a)	580,511	732,313
Employee sick leave benefits (Note 6b)	235,200	234,700
Total liabilities	1,206,348	1,380,434
Financial assets		
Cash	67	77
Due from the Consolidated Revenue Fund	132,003	175,851
Accounts receivable and advances (Note 7)	37,348	8,382
Total financial assets	169,418	184,310
Agency net debt	1,036,930	1,196,124
Non-financial assets		
Prepaid expenses	10,350	12,953
Tangible capital assets (Note 8)	391,779	403,936
Total non-financial assets	402,129	416,889
Agency net financial position	**634,801**	**779,235**

Contingent liabilities (Note 13)

The accompanying notes form an integral part of these financial statements.

Approved by:

Andrew Treusch
Commissioner of Revenue and
Chief Executive Officer

Fauzia Lalani, P. Eng.
Director and Interim Chair,
Board of Management

Statement of Operations and Agency Net Financial Position – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2013 Planned results	2013 Actual results	2012 Actual results restated (Note 3)
Expenses (Note 9)			
Reporting compliance	1,165,415	1,212,533	1,177,336
Internal services	1,160,111	1,177,661	1,298,922
Assessment of returns and payment processing	730,920	711,606	744,915
Accounts receivable and returns compliance	668,436	695,252	739,443
Taxpayer and business assistance	363,817	375,450	403,982
Appeals	235,179	248,533	255,546
Benefit programs	154,936	151,272	160,889
Taxpayers' Ombudsman	3,773	2,695	3,008
Total expenses	4,482,587	4,575,002	4,784,041
Non-tax revenues (Note 10)			
Reporting compliance	27,193	23,873	28,484
Internal services	252,225	176,719	257,493
Assessment of returns and payment processing	62,861	63,632	61,281
Accounts receivable and returns compliance	158,397	177,718	165,550
Taxpayer and business assistance	55,452	59,987	58,723
Appeals	19,172	20,812	18,873
Benefit programs	18,839	37,619	31,948
Revenues earned on behalf of Government	-	(63,615)	(62,712)
Total non-tax revenues	594,139	496,745	559,640
Net cost of operations before government funding and transfers	3,888,448	4,078,257	4,224,401
Government funding and transfers			
Net cash provided by the Government of Canada		3,817,561	3,758,224
Change in due from the Consolidated Revenue Fund		(43,848)	(47,534)
Services provided without charge from other government agencies and departments (Note 11)		448,298	321,788
Net transfers of tangible capital assets from other government departments (OGD)		680	-
Transfer of assets and liabilities to Shared Services Canada		-	(38,651)
Net cost of activities administered on behalf of Shared Services Canada		-	(64,175)
Total government funding and transfers		4,222,691	3,929,652
Net cost (surplus) of operations after government funding and transfers		(144,434)	294,749
Agency net financial position - Beginning of year		779,235	484,486
Agency net financial position - End of year		**634,801**	**779,235**

The accompanying notes form an integral part of these financial statements.

Statement of Change in Agency Net Debt – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 3)
Net cost (surplus) of operations after government funding and transfers	(144,434)	294,749
Change in tangible capital assets		
Acquisition of tangible capital assets (Note 8)	60,093	81,390
Amortization of tangible capital assets (Note 8)	(70,131)	(94,770)
Proceeds from disposal of tangible capital assets	(68)	(482)
Net loss on disposal/write-off of tangible capital assets	(2,731)	(19,821)
Retirement of tangible capital assets lease obligations	-	(8,924)
Net transfers of tangible capital assets from OGD	680	-
Transfer of tangible capital assets to Shared Services Canada	-	(92,928)
Total change in tangible capital assets	(12,157)	(135,535)
Change in prepaid expenses	(2,603)	(8,987)
Net increase (decrease) in agency net debt	(159,194)	150,227
Agency net debt - Beginning of year	1,196,124	1,045,897
Agency net debt - End of year	**1,036,930**	**1,196,124**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 3)
Operating activities		
Net cost of operations before government funding and transfers	4,078,257	4,224,401
Items not affecting cash		
Amortization of tangible capital assets (Note 8)	(70,131)	(94,770)
Net loss on disposal/write-off of tangible capital assets	(2,731)	(19,821)
Services provided without charge from other government agencies and departments (Note 11)	(448,298)	(321,788)
Change in financial assets other than due from the Consolidated Revenue Fund	28,956	638
Change in prepaid expenses	(2,603)	(7,533)
Change in liabilities	174,086	(135,922)
Cash used by operating activities	3,757,536	3,645,205
Capital investing activities		
Acquisition of tangible capital assets funded by current year appropriations (Note 4b)	56,152	51,159
Acquisition of tangible capital assets not funded by current year appropriations	3,941	30,231
Proceeds from disposal of tangible capital assets	(68)	(482)
Cash used by capital investing activities	60,025	80,908
Financing activities		
Increase in lease obligations for tangible capital assets	-	(30,077)
Payment of lease obligations for tangible capital assets	-	5,287
Cash provided by financing activities	-	(24,790)
Cash used by CRA operations	3,817,561	3,701,323
Shared Services Canada		
Operating activities	-	45,659
Capital investing activities	-	8,466
Financing activities	-	2,776
Cash used on behalf of Shared Services Canada	-	56,901
Net cash provided by the Government of Canada	**3,817,561**	**3,758,224**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements – Agency Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice, and services by:

(a) supporting the administration and enforcement of program legislation;

(b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;

(c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and

(d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA administers revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In delivering its mandate, the CRA operates under the following programs:

(a) Reporting compliance: Verifies complete and accurate disclosure by taxpayers of all required information to establish tax liabilities;

(b) Internal services: Provides internal services across the CRA, such as human resources management, financial management and information technology, to support the needs of programs and corporate obligations;

(c) Assessment of returns and payment processing: Processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and, receives payments;

(d) Accounts receivable and returns compliance: Identifies and addresses non-compliance with taxpayer filing and remittance requirements;

(e) Taxpayer and business assistance: Assists taxpayers in meeting their obligations under the self-assessment;

(f) Appeals: Provides a dispute resolution process for taxpayers who disagree with decisions taken by the CRA;

(g) Benefit programs: Provides Canadians certain income-based benefits, credits and other services on behalf of federal, provincial (except Québec), and territorial governments;

(h) Taxpayers' Ombudsman: Addresses requests for reviews made by taxpayers and benefit recipients with respect to service matters.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The Financial Statements - Agency Activities include those operational revenues and expenses which are managed by the CRA and utilized in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The purpose of the distinction between agency and administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the CRA in achieving its mandate. Tax-related assets, liabilities, revenues and expenses are excluded from these financial statements because they can only accrue to a government, not to the tax agency that administers those transactions.

As required by the *Canada Revenue Agency Act*, the Financial Statements - Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are based on Canadian public sector accounting standards. A summary of significant accounting policies follows:

(a) Changes in accounting policies

As of April 1, 2012, the CRA adopted the following standards issued by the Public Sector Accounting Board (PSAB): PS 1201 - *Financial statement presentation*, PS 2601 - *Foreign currency translation* and PS 3450 - *Financial instruments*.

PS 1201 - *Financial statement presentation* replaces PS 1200 and establishes general reporting principles and standards for the disclosure of information applicable to the financial statements. The adoption of this standard had no impact on the CRA's financial statements.

PS 2601 - *Foreign currency translation* replaces PS 2600 and establishes standards on how to account for and report transactions that are denominated in a foreign currency. The introduction of this standard eliminated the deferral of gains and losses arising on the translation of long-term foreign currency denominated monetary items. The adoption of this standard had no impact on the CRA's financial statements.

PS 3450 - *Financial instruments* establishes standards on how to account for and report all types of financial instruments including derivatives and embedded derivatives. Financial instruments are assigned to one of two measurement categories: (1) fair value and, (2) cost or amortized cost. The fair value category includes derivatives and portfolio investments in equity instruments quoted in an active market. The adoption of this standard had no impact on the recognition or measurement of financial instruments as the CRA does not have any derivatives, portfolio investments or other financial instruments measured at fair value. Disclosure requirements pertaining to this section are presented in note 14.

(b) Parliamentary appropriations

The CRA is financed by the Government of Canada through Parliamentary appropriations. Accounting for appropriations provided to the CRA does not parallel financial reporting according to Canadian public sector accounting standards, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position may be different from those provided through appropriations from Parliament. Note 4(b) provides a high-level reconciliation between the two bases of reporting. The planned results in the Statement of Operations and Agency Net Financial Position are the amounts reported in the Future-oriented Financial Statements - Agency Activities included in the 2012-2013 Report on Plans and Priorities.

(c) Net cash provided by the Government of Canada

The CRA operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CRA is deposited to the CRF and all cash disbursements made by the CRA are paid from the CRF. The net cash provided by government is the difference between all respendable cash receipts and all cash disbursements including transactions with departments and agencies.

(d) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

(e) Services provided without charge from other government agencies and departments

Estimates of the cost for services provided without charge from other government agencies and departments are recorded as expenses at their estimated cost.

(f) Revenue recognition

Non-tax revenue is recognized when the services are rendered by the CRA.

Non-tax revenues that are not available for spending cannot be used to discharge the CRA's liabilities. While management is expected to maintain accounting control, it has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction of the CRA's gross revenues.

(g) Vacation pay and compensatory leave

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

(h) Employee benefits

(i) Post-employment benefits

i.1) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The CRA's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The CRA's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the CRA. Current legislation does not require the CRA to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

i.2) Severance benefits

Some employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. These benefits represent an obligation of the CRA that entails settlement by future payments. The obligation resulting from the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the CRA.

(ii) Other benefits

ii.1) Health and dental benefits

The Government of Canada sponsors an employee benefit plan (health and dental) in which the CRA participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The CRA's contributions to the plan, which are provided without charge by the Treasury Board Secretariat, are recorded at cost based on a percentage of the salary expenses and charged to personnel expenses in the year incurred. They represent the CRA's total obligation to the plan. Current legislation does not require the CRA to make contributions for any future unfunded liabilities of the plan.

ii.2) Sick leave benefits

Employees are eligible to accumulate sick leave benefits until retirement or termination according to their terms of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. An obligation is recorded for sick leave balances expected to be used in future years in excess of future allotments using an actuarial valuation. The cost of sick leave benefits represents the year over year net variance in the actuarial value of the unused sick leave credits expected to be used in the future.

(i) Due from the Consolidated Revenue Fund (CRF)

Amounts due from the CRF are the result of timing differences between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the CRA is entitled to draw from the CRF without further authorities to discharge its liabilities.

(j) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. An allowance for doubtful accounts is recorded where recovery is considered uncertain.

(k) Tangible capital assets

All initial costs of $10,000 or more incurred by the CRA to acquire or develop tangible capital assets are capitalized and amortized over the useful lives of the assets. Similar items under $10,000 are expensed.

Tangible capital assets are amortized on a straight-line basis over the estimated useful lives of assets as follows:

Asset class	Useful life
Machinery, equipment, and furniture	10 years
In-house developed software	5-10 years
Vehicles and other means of transportation	5 years
Information technology equipment	5 years
Purchased software	3 years

Assets under construction/development are recorded as costs are incurred and are not amortized until completed and put into operation.

(l) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the CRA's best estimate of the contingency is disclosed in the notes to the financial statements.

(m) Foreign currency translation

Transactions involving foreign currencies are translated into Canadian dollars by applying the exchange rate in effect at the time of those transactions. Realized foreign exchange gains and losses resulting from foreign currency transactions are included in the other services and expenses category in Note 9 - Segmented information - Expenses.

(n) Financial instruments

The CRA uses non-derivative financial instruments in the course of its operations. Those financial instruments gave rise to the following financial assets and financial liabilities that are measured at cost or amortized cost, as per the table below.

Financial assets and financial liabilities	Measurement
Cash	Cost
Accounts receivable and advances	Amortized cost
Accrued salaries	Cost
Accounts payable and accrued liabilities	Cost
Vacation pay and compensatory leave	Cost

(o) Measurement uncertainty

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of liabilities, assets, revenues, expenses and related disclosure reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, employee sick leave benefits, contingent liabilities, the useful life of tangible capital assets, services provided without charge and the allowance for doubtful accounts are the most significant items where estimates and assumptions are used. Actual results could differ significantly from the current estimates. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

3. Restatement

The CRA has reviewed its approach for the evaluation, accounting and reporting of employee sick leave benefits. In fiscal year 2013, the CRA used an actuarial valuation to measure the obligation and the benefits expenses for the accumulating non-vesting employee sick leave benefits based on the expected future use of the benefits.

In the past, the CRA recognized benefit expenses equal to its payments and no liability for employee sick leave benefits was recorded in the financial statements. With the actuarial analysis performed this year using historical data concerning the CRA's sick leave use, the agency net debt and liabilities of fiscal year 2012 have been increased by $234,700,000.

The following table presents the impact of this restatement on the 2012 financial statements. The cumulative impact of this restatement on fiscal years prior to 2012 has been reflected in the opening balance of the agency net financial position.

	As previously stated	**Restatement**	**2012 restated**
		(in thousands of dollars)	
Statement of Financial Position:			
Employee sick leave benefits (Note 6b)	-	234,700	234,700
Agency net debt	961,424	234,700	1,196,124
Agency net financial position	544,535	234,700	779,235
Statement of Operations and Agency Net Financial Position:			
Total expenses	4,758,441	25,600	4,784,041
Net cost of operations before government funding and transfers	4,198,801	25,600	4,224,401
Net cost of operations after government funding and transfers	269,149	25,600	294,749
Agency net financial position - Beginning of year	275,386	209,100	484,486
Agency net financial position - End of year	544,535	234,700	779,235
Statement of Cash Flows:			
Net cost of operations before government funding and transfers	4,198,801	25,600	4,224,401
Change in liabilities	(110,322)	(25,600)	(135,922)

4. Parliamentary appropriations

The CRA receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the CRA has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

a) Reconciliation of Parliamentary appropriations provided and used:

	2013	2012
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1 – Operating expenditures, contributions and recoverable expenses on behalf of the *Canada Pension Plan* and the *Employment Insurance Act*	3,582,681	3,451,773
Vote 5 - Capital expenditures	83,433	89,033
Spending of revenues received through the conduct of operations pursuant to section 60 of the *Canada Revenue Agency Act*	166,977	245,459
Spending of proceeds from disposal of surplus Crown assets	133	165
Statutory expenditures:		
Contributions to employee benefits plans	463,604	456,860
Disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*[1]	136,913	213,871
Children's special allowance payments[1]	238,007	223,546
Other	1,647	1,699
	4,673,395	4,682,406
Less:		
Appropriations available for future years[2]:		
Vote 1	(262,896)	(220,351)
Vote 5	(36,930)	(27,967)
Appropriations lapsed:		
Vote 1	(54,410)	(10,532)
Vote 5	(690)	-
Shared Services Canada deemed appropriations:		
Vote 1	-	(62,889)
Vote 5	-	(9,377)
Expenditures related to administered activities[1]	(374,930)	(437,670)
	(729,856)	(768,786)
Total Parliamentary appropriations used	**3,943,539**	**3,913,620**

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[1] In accordance with the division of activities for financial reporting purposes outlined in Note 2, the payments under the *Softwood Lumber Products Export Charge Act, 2006* and the *Children's Special Allowances Act* are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the CRA's Financial Statements - Administered Activities.

[2] Pursuant to section 60(1) of the *Canada Revenue Agency Act*, the balance of money appropriated by Parliament for the use of the CRA that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.

b) Reconciliation of net cost of operations before government funding and transfers to current year Parliamentary appropriations used:

	2013	2012
	(in thousands of dollars)	
		Restated (Note 3)
Net cost of operations before government funding and transfers	4,078,257	4,224,401
Expenses not requiring use of current year appropriations:		
Amortization of tangible capital assets (Note 8)	(70,131)	(94,770)
Adjustment to prior years' accruals	2,664	6,084
Loss on disposal/write-off of tangible capital assets	(2,789)	(19,929)
Services provided without charge from other government agencies and departments (Note 11)	(448,298)	(321,788)
Other	17,179	(22,329)
	(501,375)	(452,732)
Changes to non financial assets affecting appropriations:		
Tangible capital assets acquisitions	56,152	51,159
Variation in prepaid expenses	(2,603)	(7,533)
	53,549	43,626
Changes to future funding requirements:		
Vacation pay and compensatory leave	(4,648)	(5,758)
Employee severance benefits	151,802	(114,774)
Employee sick leave benefits	(500)	(25,600)
	146,654	(146,132)
Non-tax revenues available for spending (Note 10)	166,454	244,457
Total Parliamentary appropriations used	**3,943,539**	**3,913,620**

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within 30 days of year-end.

	2013	2012
	(in thousands of dollars)	
Accounts payable and accrued liabilities – Related parties	28,809	13,699
Accounts payable and accrued liabilities – External	89,657	138,488
	118,466	**152,187**

6. Employee benefits

a) Post-employment benefits

(i) Pension benefits

The CRA and all eligible employees contribute to the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec pension plans benefits and they are indexed to inflation.

Both the CRA and the employees contribute to the Public Service Pension Plan. The current year expense for the CRA's contributions represents approximately 1.7 times the contributions by employees. The contributions to the Public Service Pension Plan for the year were as follows:

	2013	2012
	(in thousands of dollars)	
CRA's contributions	331,013	328,483
Employees' contributions	194,713	182,491

The CRA's responsibility with regard to this plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(ii) Severance benefits

The CRA provides severance benefits to its employees based on eligibility, years of service and salary upon termination of employment. These severance benefits are unfunded. Benefits will be paid from future appropriations.

Annually, as at March 31st of each year, the CRA obtains an actuarial valuation of the employee severance obligation for accounting purposes using actuarial assumptions including the discount rate and the yearly salary increase. These assumptions are reviewed at each valuation date and are based on management's best estimate. As at March 31, 2013, a discount rate and yearly salary increase of 2.68% and 2.6% - 2.7% respectively (2.75% and 2.3% - 2.7% as at March 31, 2012) were used in the actuarial valuation.

Information about the severance benefits, measured as at March 31, is as follows:

	2013	2012
	(in thousands of dollars)	
Employee severance benefits, beginning of year	732,313	633,270
Cost for the year	32,849	184,675
Benefits paid during the year	(184,651)	(69,901)
Transfer to Shared Services Canada	-	(15,731)
Employee severance benefits, end of year	**580,511**	**732,313**

As part of changes to conditions of employment of certain employee groups effective October 1, 2011 and July 10, 2012, the accumulation of severance benefits ceased for those employees. They have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

b) Other benefits

(i) Health and dental benefits

The CRA contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan, which are sponsored by the Government of Canada.

The CRA's responsibility with regard to these plans is limited to its contributions (refer to Note 11). Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(ii) Sick leave benefits

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences, due to illness or injury. Employees are allowed to accumulate unused sick leave credits each year. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick leave balance for sick-leave compensation ceases on termination of employment. These sick leave benefits are unfunded. They will be paid from future appropriations.

Information about the sick leave benefits obligation and expense, measured as at March 31, is presented in the following table:

	2013	2012
	(in thousands of dollars)	
		Restated (Note 3)
Employee sick leave benefits, beginning of year	234,700	209,100
Cost for the year	40,000	62,900
Previous years' benefits paid during the year	(39,500)	(37,300)
Employee sick leave benefits, end of year	**235,200**	**234,700**

For accounting purposes, the CRA obtained an actuarial valuation of its employee sick leave benefits as at March 31, 2013 and 2012, based on the projected benefit method prorated on services. The actuarial valuation used a discount rate of 2.68% and a salary growth of 2.6% - 2.7% as at March 31, 2013 (2.75% and 2.7% - 2.9% respectively for March 31, 2012) which were based on management's best estimate.

7. Accounts receivable and advances

	2013	2012
	(in thousands of dollars)	
Account receivable - Related parties	33,438	4,148
Accounts receivable - External	809	618
Advances to employees	1,081	1,527
Salary overpayments	2,811	2,973
	38,139	9,266
Less: Allowance for doubtful accounts	(791)	(884)
Total accounts receivable and advances	**37,348**	**8,382**

8. Tangible capital assets

	Cost				
Tangible capital asset class	Opening balance	Acquisitions	Disposals and adjustments	Transfers from (to) OGD (Note 11)	Closing balance
			(in thousands of dollars)		
Machinery, equipment and furniture	12,364	287	(612)	(615)	11,424
Software (purchased and in-house developed and/or in development)	703,964	57,587	(4,010)	6,752	764,293
Vehicles and other means of transportation	2,210	290	(229)	(25)	2,246
Information technology equipment	20,689	1,929	(211)	(1,443)	20,964
Total	**739,227**	**60,093**	**(5,062)**	**4,669**	**798,927**

Tangible capital asset class	Accumulated amortization Opening balance	Amortization expense	Disposals and adjustments	Transfers from (to) OGD (Note 11)	Closing balance
	(in thousands of dollars)				
Machinery, equipment and furniture	5,312	865	(515)	(229)	5,433
Software (purchased and in-house developed and/or in development)	311,200	67,190	(1,316)	5,527	382,601
Vehicles and other means of transportation	1,401	276	(221)	(9)	1,447
Information technology equipment	17,378	1,800	(211)	(1,300)	17,667
Total	**335,291**	**70,131**	**(2,263)**	**3,989**	**407,148**

Tangible capital asset class	**2013 net book value**	**2012 net book value**
	(in thousands of dollars)	
Machinery, equipment and furniture	5,991	7,052
Software (purchased and in-house developed and/or in development)	381,692	392,764
Vehicles and other means of transportation	799	809
Information technology equipment	3,297	3,311
Total	**391,779**	**403,936**

The cost of software in development, which is not amortized, is $59,055,301 as at March 31, 2013 ($86,835,856 as at March 31, 2012).

9. Segmented information - Expenses

The following table presents the expenses by program and expense category as described in Note 1 of these financial statements.

	Reporting compliance	Internal services	Assessment of returns and payment processing	Accounts receivable and returns compliance	Taxpayer and business assistance	Appeals	Benefit programs	Taxpayers' Ombudsman	2013	2012
									(in thousands of dollars)	
Personnel:										Restated (Note 3)
Salaries	715,274	516,691	324,431	412,583	230,343	105,535	75,345	1,711	2,381,913	2,360,040
Other allowances and benefits (including employee benefits described in Note 6)	346,569	222,564	113,670	157,748	90,978	45,632	26,492	587	1,004,240	1,184,690
	1,061,843	739,255	438,101	570,331	321,321	151,167	101,837	2,298	3,386,153	3,544,730
Professional and business services	19,170	241,466	4,996	22,675	4,822	74,079	1,333	95	368,636	259,437
Accommodation	88,537	85,996	42,186	64,191	39,621	17,724	9,841	224	348,320	344,894
Federal sales tax administration costs by the Province of Québec	-	-	142,222	-	-	-	-	-	142,222	141,067
Transportation and communications	17,163	32,264	45,330	11,931	3,247	1,035	15,054	24	126,048	160,653
Amortization of tangible capital assets (Note 8)	10,999	14,032	21,247	16,213	2,791	1,136	3,713	-	70,131	94,770
Other services and expenses	5,784	4,912	3,366	3,004	1,080	2,100	18,865	9	39,120	47,102
Repair and maintenance	49	29,106	972	80	45	13	9	-	30,274	68,769
Equipment purchases	5,386	12,453	1,953	4,035	1,046	609	305	1	25,788	63,924
Materials and supplies	2,640	8,011	10,300	1,503	745	487	257	8	23,951	26,319
Advertising, information and printing services	150	7,920	158	69	456	15	15	32	8,815	8,836
Loss on disposal/write-off of tangible capital assets	10	1,487	372	804	82	34	-	-	2,789	19,929
Equipment rentals	802	759	403	416	194	134	43	4	2,755	3,611
Total expenses	**1,212,533**	**1,177,661**	**711,606**	**695,252**	**375,450**	**248,533**	**151,272**	**2,695**	**4,575,002**	**4,784,041**

10. Segmented information- Non-tax revenues

The following table presents the revenues generated by program and revenue category as described in Note 1 of these financial statements.

	Reporting compliance	Internal services	Assessment of returns and payment processing	Accounts receivable and returns compliance	Taxpayer and business assistance	Appeals	Benefit programs	**2013**	**2012**
								(in thousands of dollars)	
Non-tax revenues credited to Vote 1									
Fees for administering the *Employment Insurance Act*	-	44,791	16,148	81,635	29,693	9,828	478	182,573	176,355
Fees for administering the *Canada Pension Plan*	-	39,377	17,627	69,811	17,182	3,721	-	147,718	138,828
	-	84,168	33,775	151,446	46,875	13,549	478	330,291	315,183
Non-tax revenues available for spending									
Services fees	402	53,422	5,248	701	270	-	1,171	61,214	138,698
Administration fees - provinces and territories	18,612	30,451	15,597	923	1,585	2,608	32,763	102,539	103,315
Miscellaneous respendable revenues	459	20	51	-	2,169	-	2	2,701	2,444
	19,473	83,893	20,896	1,624	4,024	2,608	33,936	166,454	244,457
Non-tax revenues not available for spending									
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	4,400	7,959	8,961	24,648	9,088	2,456	3,205	60,717	61,242
Miscellaneous non-tax revenues	-	699	-	-	-	2,199	-	2,898	1,470
	4,400	8,658	8,961	24,648	9,088	4,655	3,205	63,615	62,712
Total non-tax revenues before revenues earned on behalf of Government	23,873	176,719	63,632	177,718	59,987	20,812	37,619	560,360	622,352
Revenues earned on behalf of Government	(4,400)	(8,658)	(8,961)	(24,648)	(9,088)	(4,655)	(3,205)	(63,615)	(62,712)
Total non-tax revenues	**19,473**	**168,061**	**54,671**	**153,070**	**50,899**	**16,157**	**34,414**	**496,745**	**559,640**

11. Related party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. Transactions with Crown corporations entered into by the CRA are in the normal course of business and on normal trade terms applicable to all individuals and enterprises. Transactions with other Government of Canada departments and agencies are conducted on a cost recovery basis, except for transfers of tangible capital assets that are carried out at net book value.

During the year, the CRA received various services without charge from other government agencies and departments. The estimated costs for significant services provided without charge that have been recorded include:

	2013	2012
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans – Treasury Board Secretariat	235,116	210,849
Information technology services - Shared Services Canada	167,493	64,175
Legal services – Justice Canada	37,402	40,690
Audit services – Office of the Auditor General of Canada	2,520	2,430
Payroll services – Public Works and Government Services Canada	4,476	2,284
Workers' compensation benefits – Human Resources and Skills Development Canada	1,291	1,360
Total	**448,298**	**321,788**

12. Board of Management

Pursuant to the *Canada Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the CRA and the management of its resources, services, property, personnel and contracts. The expenses relating to the board's activities for the year included in the net cost of operations were as follows:

	2013	2012
	(in thousands of dollars)	
Board of Management		
Compensation	304	329
Travel	101	165
Professional services and other expenses	94	106
	499	600
Other related costs		
Corporate Secretariat support	647	690
Total	**1,146**	**1,290**

13. Contingent liabilities

The CRA is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business of agency activities as defined in Note 2. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2013, contingent liabilities for claims and pending and threatened litigation have been estimated by managementat $9,882,645 ($36,772,645 as at March 31, 2012).

14. Financial risk management

The CRA uses non-derivative financial instruments in the course of its operations that give rise to financial assets and financial liabilities. Those financial liabilities comprise accrued salaries, accounts payable and accrued liabilities, vacation pay and compensatory leave. Cash, accounts receivables and advances represent those financial assets.

The CRA is exposed to credit risk, liquidity risk and market risk in connection with its financial instruments.

The credit risk is the risk that another party owing money to the CRA would fail to discharge its obligation creating a financial loss for the CRA. The maximum exposure of the CRA to the credit risk amounted to $37,347,968 as of March 31, 2013 ($8,381,847 as of March 31, 2012), which is equal to the carrying value of its accounts receivable and advances. As the vast majority of the CRA's accounts receivable and advances are either with other government departments or employees, the credit risk is low.

The liquidity risk is the risk that the CRA would encounter difficulty in meeting its obligations associated with its financial liabilities. The CRA's liquidity risk is minimal given that the CRA receives most of its funding through annual Parliamentary appropriations and maintains strong controls over expenditure management.

The market risk is defined as the risk that future cash flows of a financial instrument would fluctuate because of changes in currency rates, interest rates and/or other rates. The CRA's exposure to market risk is limited to fluctuations in the currency rates and the impact of such variations on CRA's cash flows is negligible as its financial transactions in foreign currency are immaterial.

15. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Financial Statements Discussion and Analysis – Agency Activities

Introduction

This section of the financial statements provides unaudited complementary and supplementary information on Agency Activities, on an accrual basis, in respect of matters reported in the audited financial statements. Responsibility for the preparation of this financial statements discussion and analysis rests with the CRA's management.

Capacity to deliver services

The CRA's workforce of over 40,000 employees is fundamental to the achievement of its mandate. In the course of 2012-2013, this workforce was comprised on average of 81% permanent employees, 18% term employees and 1% students.

The CRA's employees are located throughout Canada, in the following operational regions: Ontario (32%), Headquarters (22%), Prairies (14%); Québec (12%); Pacific (12%) and Atlantic (8%). They provide services to taxpayers in over 40 tax services offices and tax centers, as well as program services and internal services supporting those programs.

The CRA's information technology (IT) capacity now significantly managed through Shared Services Canada (SSC) is also critical to its ability to deliver services to Canadians. It involves two data centres which process up to 4.5 million transactions per hour, 7 mainframe computers, approximately 670 physical servers and 1,750 virtual servers, and the maintenance of over 490 applications across a distributed computing environment covering more than 400 locations.

Risk management

The CRA recognizes that a variety of risks could have potential implications on its financial position and operations. Its Enterprise Risk Management (ERM) Division of the Audit, Evaluation, and Risk Branch plays a key role in ensuring that risks are identified, impacts are assessed and strategies for risk management are adopted, notably by producing the CRA Corporate Risk Profile.

Further details on ERM at the CRA are discussed in this annual report. This financial statements discussion and analysis will elaborate on specific financial risks throughout its content, where applicable.

Financial highlights

Five developments have significantly influenced the 2012-2013 results in the financial statements.

Employee sick leave benefits

In keeping with the federal government as well as a number of organizations from other levels of government, changes were made this fiscal year to the accounting for employee benefits, specifically for the non-vesting sick leave benefits. Consequently, in 2012-2013, the CRA has recorded in its financial statements the obligation and related expense for employee sick leave benefits, representing the estimated value of accumulated sick leave credits expected to be taken by CRA employees in excess of their yearly allotment. The CRA's employee sick leave benefits obligation and expense determined using an actuarial valuation amounted to $235.2 million and $0.5 million respectively as at March 31, 2013. Prior year comparative figures have been restated and the obligation and related expense were estimated at $234.7 million and $25.6 million respectively as at March 31, 2012.

Budget 2012 implementation

The Government of Canada has set out a clear commitment to reduce the deficit and, as one of the federal government's largest institutions, the CRA is a significant contributor. Savings associated with the CRA's Budget 2012 spending review measures are planned to reach approximately $253 million at maturity, with the 2012-2013 savings target of $28 million achieved with minimal impact on the existing workforce as a result of attrition and the use of vacancy management.

A number of tax measures were also introduced as part of Budget 2012. The CRA internally managed, through existing funding levels for fiscal year 2012-2013, approximately $13 million of implementation and administration costs associated with these tax measures.

CRA's resource management

Fiscal year 2012-2013 was the last year of the 3-year operating budget freeze announced by the Government of Canada back in the 2010 Federal Budget, according to which no incremental central funding was received by the CRA to cover the cost of its yearly salary increases pursuant to collective agreement provisions.

The funding shortfall associated with these wage increases amounted to approximately $91 million in 2012-2013. The CRA managed this operating pressure with internal funding from general administrative and program efficiencies identified through a targeted program spending review and mitigated its impacts through the use of a multi-year resource management strategy. This strategy is possible given the CRA's two-year spending authority, which allows the organization to better position itself in future years to address known pressures, including those arising from Budget 2010 and transformation costs associated with restraint measures announced in both Budget 2012 and 2013, as well as to respond quickly to any unforeseen and extraordinary operating pressures. In 2012-2013, the total appropriations available for future years were higher than prior years, totalling $299.8 million.

As part of its resource management strategy, the CRA continuously reviews and revises plans and priorities to ensure the effective use of government resources and the achievement of its core business outcomes. In 2012-2013, the majority of key performance targets were met or exceeded.

Shared Services Canada

Shared Services Canada (SSC) has been responsible for the delivery of IT infrastructure services to the CRA since November 2011. Funding of $157 million, excluding the related employee benefit plan contributions of $10 million, was transferred to SSC for fiscal year 2012-2013, which represented the first full year for the delivery of these services.

The cost of these IT services are still reported in the financial statements (Note 10) as professional services provided without charge by SSC.

Provincial sales tax administration reform

The CRA received funding in 2012-2013 of $157 million ($98 million in 2011-2012), which excluded the related employee benefit plan contributions of $25 million and accommodation charges, for the continued implementation and administration of the HST in the provinces of Ontario and British Columbia. This funding was used to onboard affected provincial employees to the CRA, identify and address risk of HST non-compliance, and administer province-specific HST flexibilities.

As a result of the decision by the province of British Columbia to return to a provincial sales tax model on April 1, 2013, $12 million in funding associated with the onboarding of provincial employees was returned to the Treasury Board by the CRA for fiscal year 2012-2013. The CRA continued to administer the HST in the province of British Columbia during the transition period.

Discussion and analysis

Net cost of operations before government funding and transfers

The CRA's 2012-2013 net cost of operations before government funding and transfers amounted to $4,078.3 million, increasing by $189.8 million from the $3,888.5 million planned results for 2013. The variance is explained by a $97.4 million decrease in non-tax revenues that is attributable to a change in accounting policy of non-tax revenues not available for spending as well as a decrease in the fees for IT services now being provided to the Canada Border Services Agency (CBSA) by SSC rather than by the CRA. The variance is further explained by higher costs for severance benefits than originally forecasted in 2011 when the planned results were established, due to changes in actuarial assumptions.

The CRA's 2012-2013 net cost of operations before government funding and transfers amounted to $4,078.3 million, decreasing by $146.1 million from the $4,224.4 million net cost of operations before government funding and transfers in 2011-2012.

Details of the net cost of operations before government funding and transfers are illustrated below (see Note 9 of the Financial Statements - Agency Activities for a further breakdown of expenses by category):

Figure 1: Details on the net cost of operations before government funding and transfers

	2013	2012	Difference
	(in thousands of dollars)		
Personnel	3,386,153	3,544,730	(158,577)
Accommodation	348,320	344,894	3,426
IT and telecommunication equipment and services	341,253	365,951	(24,698)
Transportation	124,870	130,730	(5,861)
Professional and business services excluding IT	148,642	155,493	(6,851)
Federal sales tax administration costs – Province of Québec	142,222	141,067	1,155
Other	83,543	101,176	(17,633)
Total expenses	**4,575,002**	**4,784,041**	**(209,039)**
Less: Non-tax revenues	496,745	559,640	(62,895)
Net cost of operations before government funding and transfers	**4,078,257**	**4,224,401**	**(146,144)**

Comparative figures have been reclassified with the current year presentation.

Personnel expenses (salaries, other allowances and benefits) are the CRA's primary costs, representing 74% of total expenses while the remaining 26% of expenses are comprised of various other costs such as accommodation, telecommunication and information technology equipment and services. The decrease in personnel costs of $158.6 million is mostly attributable to a decrease in severance benefits due in part to the plan curtailment for employees represented by the Professional Institute of the Public Service of Canada (PIPSC) and to the fact that the severance benefit expenses were higher than usual in 2012 as a result of changes in actuarial assumptions. This decrease was partially offset by annual economic salary increases and salary increments pursuant to collective agreement provisions.

Non-personnel expenses have decreased by $50.5 million in 2012-2013. This variance mainly results from decreased losses resulting from the write-off of in-house developed software in the course of the fiscal year, lower travel expenses and legal fees, combined to a reduction of the provision for contingent liabilities arising from claims and litigation. The transfer of responsibilities over certain IT and telecommunication services to SSC in November 2011, though creating year over year variances in distinct expense categories, had nearly no net impact on total expenses. Expenses that used to be incurred by the CRA prior to that transfer, such as salaries, equipment purchases and repair and maintenance, are now mostly reported as IT services provided by SSC.

Non-tax revenues also decreased significantly in 2012-2013, mostly as a result of IT services now being provided to the CBSA by SSC rather than by the CRA.

Financial position

The change in the agency net financial position compared to the previous year is as follows:

Figure 2: Statement of financial position

	2013	2012	Difference
	(in thousands of dollars)		
Liabilities	1,206,348	1,380,434	(174,086)
Financial assets	169,418	184,310	(14,892)
Agency net debt	1,036,930	1,196,124	(159,194)
Non-financial assets	402,129	416,889	(14,760)
Agency net financial position	**634,801**	**779,235**	**(144,434)**

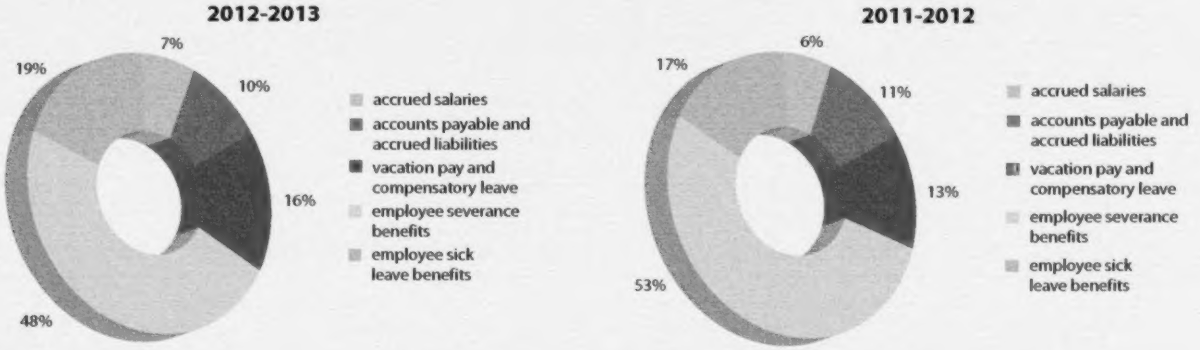
The decrease in the agency net financial position is mainly attributable to decreased liabilities due to employee severance benefits as explained below.

Liabilities

Liabilities decreased by $174.1 million in 2012-2013, of which $151.8 million is attributable to the decreased employee severance benefits mainly as the result of the severance curtailment effective as of July 10, 2012 for employees represented by the PIPSC. These employees account for about a third of the CRA's permanent workforce.

Employee benefits are CRA's most significant liability. While an obligation for employee sick leave benefits was recorded retroactively for the first time in 2012-2013, employee severance benefits remain the CRA's most important obligation as illustrated in the figure below.

Figure 3: Liabilities by category



Employee sick leave and severance benefits combined account for 67% of the CRA total liabilities in 2012-2013. These are significant liabilities that require the use of management estimates and assumptions to determine their present value as at March 31 of every year. As such, there lies a financial risk of imprecision in the financial position of the CRA where actual liabilities and the related expenses may differ significantly from current estimates. To minimize this risk, the CRA makes use of the expertise of the Office of the Chief Actuary, who provides an actuarial valuation report yearly, discussing the actuarial assumptions and method used to determine the actuarial present value of those employee benefits.

Non-financial assets

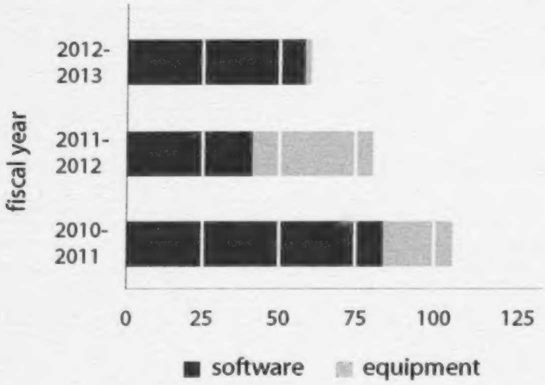
Non-financial assets are comprised of 97% tangible capital assets. The CRA managed a capital budget of $83.4 million for the year 2012-2013 ($89.0 million for 2011-2012), of which $36.9 million ($27.9 million for 2011-2012) remains available for use in future years in accordance with the CRA's multi-year resource management strategy.

The net book value of tangible capital assets remained fairly stable in 2012-2013 with a net decrease of $12.2 million. The vast majority of tangible capital assets owned by the CRA relates to IT, specifically in-house developed software. As a large organisation responsible for delivering an extensive range of tax and benefits programs on behalf of the federal and of provincial governments, the CRA has specialized software needs that are primarily fulfilled internally through the development of in-house tailored applications by the CRA employees.

To prioritize investment decisions regarding in-house developed software and support the effective management of resources, the CRA Resource and Investment Management Committee (RIMC) oversees investment projects above $1 million. All projects brought to the RIMC require a formal attestation from ERM Division that the CRA risk management process was followed and that sound risk information forms part of the submission. The attestation process takes place at various project development stages. Enterprise risk information is used to inform the development of the CRA Strategic Investment Plan, a long-term plan of significant future investments. Alignment with the priorities outlined in the Corporate Risk Profile is one of the considerations used to inform the priority ranking of initiatives.

Investments in-house developed software represent an increasingly significant portion of the CRA's total investments in IT, with $57.6 million in software acquisitions compared to $1.9 million in hardware acquisitions in 2012-2013 ($40.9 million and 38.7 million respectively in 2011-2012), as illustrated in the figure below. The decrease in IT equipment acquisitions is attributable to the transfer to SSC of email, data centers and network services responsibilities in November 2011.

Figure 4: Breakdown of investments in IT (in millions)



Five year comparative financial information

Below are tables that provide a five year comparison of financial information based on the accounting policies explained in note 2 to the audited financial statements.

Figure 5: Statement of financial position

	2009	2010	2011	2012 Restated	2013
			(in thousands of dollars)		
Liabilities					
Accrued salaries	168,100	49,785	56,568	78,257	84,546
Accounts payable and accrued liabilities	164,224	183,818	184,086	152,187	118,466
Lease obligations for tangible capital assets	13,562	14,732	13,304	-	-
Vacation pay and compensatory leave	164,478	176,953	180,775	182,977	187,625
Employee severance benefits	619,846	554,363	633,270	732,313	580,511
Employee sick leave benefits	-	-	-	234,700	235,200
Total liabilities	1,130,210	979,651	1,068,003	1,380,434	1,206,348
Financial assets					
Cash	71	93	84	77	67
Due from the Consolidated Revenue Fund	299,995	181,212	223,385	175,851	132,003
Accounts receivable and advances	7,711	43,174	7,737	8,382	37,348
Total financial assets	307,777	224,479	231,206	184,310	169,418
Agency net debt	822,433	755,172	836,797	1,196,124	1,036,930
Non-financial assets					
Prepaid expenses	19,333	17,299	21,940	12,953	10,350
Tangible capital assets	489,816	530,425	539,471	403,936	391,779
Total non-financial assets	509,149	547,724	561,411	416,889	402,129
Agency net financial position	**313,284**	**207,448**	**275,386**	**779,235**	**634,801**

Comparative figures have been reclassified with the current year presentation.

Figure 6: Segmented information - Expenses

	2009	2010	2011	2012	2013
				Restated	
			(in thousands of dollars)		
Personnel:					
Salaries	2,226,094	2,301,210	2,331,814	2,360,040	2,381,913
Other allowances and benefits	1,014,419	929,087	1,077,517	1,184,690	1,004,240
	3,240,513	3,230,297	3,409,331	3,544,730	3,386,153
Professional and business services	222,044	210,024	204,313	259,437	368,636
Accommodation	312,681	331,587	327,413	344,894	348,320
Federal sales tax administration costs by the Province of Québec	131,732	148,437	142,179	141,067	142,222
Transportation and communications	201,274	197,804	194,861	160,653	126,048
Amortization of tangible capital assets	88,377	86,838	94,564	94,770	70,131
Other services and expenses	27,485	39,042	39,896	47,102	39,120
Repair and maintenance	66,298	71,087	94,849	68,769	30,274
Equipment purchases	67,720	56,195	45,821	63,924	25,788
Materials and supplies	36,824	37,067	30,557	26,319	23,951
Advertising, information and printing services	9,746	17,756	10,775	8,836	8,815
Loss on disposal/write-off of tangible capital assets	23,947	10,432	6,699	19,929	2,789
Equipment rentals	5,057	4,755	4,322	3,611	2,755
Total expenses	**4,433,698**	**4,441,321**	**4,605,580**	**4,784,041**	**4,575,002**

Segmented information - non-tax revenues

	2009	2010	2011	2012	2013
	(in thousands of dollars)				
Non-tax revenues credited to Vote 1					
Fees for administering the *Employment Insurance Act*	143,419	167,067	171,287	176,355	182,573
Fees for administering the *Canada Pension Plan*	127,512	133,774	135,688	138,828	147,718
	270,931	300,841	306,975	315,183	330,291
Non-tax revenues available for spending					
Services fees	158,965	155,001	153,234	138,698	61,214
Administration fees - provinces and territories	53,501	55,397	87,995	103,315	102,539
Miscellaneous respendable revenues	3,088	2,506	2,403	2,444	2,701
	215,554	212,904	243,632	244,457	166,454
Non-tax revenues not available for spending					
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	48,565	53,248	57,986	61,242	60,717
Miscellaneous non-tax revenues	2,509	2,428	1,684	1,470	2,898
	51,074	55,676	59,670	62,712	63,615
Total non-tax revenues before revenues earned on behalf of Government	537,559	569,421	610,277	622,352	560,360
Revenues earned on behalf of Government[1]	-	-	(59,670)	(62,712)	(63,615)
Total non-tax revenues	**537,559**	**569,421**	**550,607**	**559,640**	**496,745**

Comparative figures have been reclassified with the current year presentation.

[1] The CRA's accounting policy for non-respendable revenues was modified for fiscal year 2010-2011 onward, presenting those revenues as earned on behalf of the Government of Canada in reduction of the CRA's gross revenue.

Outlook

The CRA will continue to improve the efficiency and effectiveness of its operations and programs through initiatives aimed at modernizing its services and compliance activities while adhering to the Government of Canada's goal of returning to a budgetary balance. In this context, a focus will be placed on the CRA's internal operations over the next years. The CRA will also be working towards the implementation and administration of a significant number of tax measures announced in the *Economic Action Plan 2013*.

Canada Revenue Agency Audited Financial Statements – Administered Activities

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying statement of administered assets and liabilities of the Canada Revenue Agency as at 31 March 2013, and the statement of administered revenues and pension contributions, statement of administered expenses and recoveries and statement of administered cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management using the basis of accounting described in Note 2.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial information based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial information presents fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at 31 March 2013, and the results of its administered operations and its administered cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 to the financial information, which describes the purpose and basis of accounting for reporting activities administered by the Canada Revenue Agency on behalf of others. This financial information may not be suitable for another purpose. Management prepares a separate set of financial statements to report the operational revenues and expenses of the Canada Revenue Agency.

Michael Ferguson, CPA, CA
FCA (New Brunswick)
Auditor General of Canada

26 August 2013
Ottawa, Canada

Canada Revenue Agency
Statement of Administered Assets and Liabilities
as at March 31
(in thousands of dollars)

	2013	2012
Administered assets		
Cash on hand	6,474,930	5,228,267
Amounts receivable from taxpayers (Note 4)	88,959,530	84,270,615
Amounts receivable under the tobacco civil settlements (Note 5)	462,917	526,532
Total assets	**95,897,377**	**90,025,414**
Administered liabilities		
Amounts payable to taxpayers (Note 6)	54,888,038	50,956,269
Amounts payable to provinces (Note 7)	536,642	657,763
Deposit accounts (Note 8)	149,450	128,552
	55,574,130	51,742,584
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (Note 9)	40,323,247	38,282,830
Total liabilities	**95,897,377**	**90,025,414**

Contingent liabilities (Note 10)

The accompanying notes form an integral part of these financial statements.

Approved by:

Andrew Treusch
Commissioner of Revenue and
Chief Executive Officer

Fauzia Lalani, P. Eng.
Director and Interim Chair,
Board of Management

Canada Revenue Agency
Statement of Administered Revenues and Pension Contributions
for the year ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 3)
Federal administered revenues		
Income tax revenues		
Individuals and Trusts (Note 11)	125,817,451	120,741,070
Corporate	34,985,855	33,641,067
Non-resident tax withholdings	5,072,674	5,300,928
	165,875,980	159,683,065
Other taxes, duties and charges		
Goods and services tax (Note 12)	10,343,005	10,372,547
Energy taxes	5,324,250	5,268,716
Other excise taxes and duties	3,328,525	3,342,813
Miscellaneous charges (Note 13)	795,723	865,274
	19,791,503	19,849,350
Employment insurance premiums	20,795,737	19,030,411
Interest, penalties, and other revenues (Note 14)	3,802,556	3,663,901
Revenues administered on behalf of the Government of Canada	**210,265,776**	**202,226,727**
Provincial and territorial governments and First Nations administered revenues		
Income tax revenues		
Individuals and trusts	54,702,467	53,514,838
Corporate	13,046,291	14,783,024
	67,748,758	68,297,862
Provincial portion of harmonized sales tax (Note 15)	27,021,435	25,151,959
Other revenues (Note 16)	59,383	28,380
Revenues administered on behalf of provincial and territorial governments and First Nations	**94,829,576**	**93,478,201**
Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan (Note 17)	**41,742,977**	**39,026,598**
Total administered revenues and pension contributions	**346,838,329**	**334,731,526**

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency
Statement of Administered Expenses and Recoveries

for the year ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 3)
Federal administered expenses		
Transfers to individuals		
Child tax benefits	10,265,789	10,048,991
Universal child care benefits	2,709,407	2,677,419
Working income tax benefit	1,146,416	1,131,989
Children's special allowances	238,007	223,546
Refundable medical expense supplement	135,863	135,631
	14,495,482	14,217,576
Transfers to corporations		
Refundable investment tax credit	1,542,917	1,580,706
Film and video tax credits	327,012	358,504
	1,869,929	1,939,210
Other federal expenses		
Provision for doubtful accounts (Note 4)	3,215,136	3,711,275
Interest expense	550,533	696,654
Transfers to provinces for softwood lumber products export charge	136,913	213,871
	3,902,582	4,621,800
Total	**20,267,993**	**20,778,586**
Federal administered recoveries		
Old age security benefits	(1,214,065)	(1,159,270)
Employment insurance benefits	(224,036)	(235,619)
	(1,438,101)	**(1,394,889)**
Net expenses and recoveries administered for the Government of Canada	**18,829,892**	**19,383,697**
Provincial and territorial administered expenses		
Transfers to individuals		
Ontario energy and property tax credit	1,259,221	794,966
Family benefit programs	1,060,368	1,068,375
British Columbia low-income climate action tax credit	194,160	184,590
Ontario senior homeowners' property tax grant	188,411	219,682
Other property tax credits	143,905	279,235
Other transfers	304,251	317,173
	3,150,316	2,864,021
Transfers to corporations		
Refundable investment tax credits	847,238	786,108
Film and television production services tax credits	711,141	673,537
	1,558,379	1,459,645
Expenses administered for provinces and territories	**4,708,695**	**4,323,666**
Provision for doubtful accounts administered for the Canada Pension Plan (Note 4)	**87,762**	**102,339**
Total net administered expenses and recoveries	**23,626,349**	**23,809,702**

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency
Statement of Administered Cash Flows

for the year ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 3)
Total administered revenues and pension contributions	346,838,329	334,731,526
Total net administered expenses and recoveries	(23,626,349)	(23,809,702)
Revenues paid or payable directly to a province	(22,011)	-
Changes in administered assets and liabilities:		
Cash on hand	(1,246,663)	1,190,105
Amounts receivable from taxpayers	(4,688,915)	(7,311,465)
Amounts receivable under the tobacco civil settlements	63,615	61,695
Amounts payable to taxpayers	3,931,769	2,309,146
Amounts payable to provinces	(121,121)	7,275
Deposit accounts	20,898	20,910
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (Note 9)	**321,149,552**	**307,199,490**
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	436,106,648	419,114,545
Cash refunds/payments from the Consolidated Revenue Fund	(114,957,096)	(111,915,055)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (Note 9)	**321,149,552**	**307,199,490**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements – Administered Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice and services by:

(a) supporting the administration and enforcement of the program legislation;

(b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory, or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;

(c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and

(d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA administers revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In the province of Quebec, Revenu Québec (RQ) acts as an agent of the CRA in administering and enforcing the GST. The CRA monitors cash transfers made by RQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to RQ so it can issue refunds.

Under an agreement with the province of Nova Scotia, the CRA receives worker's compensation payments and transfers these to the province. The CRA's mandate for administering customs legislation is limited to the collection functions noted under Part V.1 of the *Customs Act*. The CRA also provides collection services to Human Resources and Skills Development Canada for certain accounts receivable under various acts.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The purpose of these administered activities statements is to give information about the tax-related revenues, expenses, assets, and liabilities that the CRA administers on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The CRA administers individual income tax for all provinces except Quebec, and corporate income tax for all provinces except Quebec and Alberta. The Financial Statements - Agency Activities include the operational revenues and expenses that the CRA manages and uses to run the organization.

The *Canada Revenue Agency Act* requires the CRA to prepare financial statements in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. As a result, CRA follows those accounting principles to account for the federal administered activities. In addition, activities administered for the provincial and territorial governments, First Nations and other organizations are accounted for on the same basis as those administered for the federal government, and may differ from the accounting principles used by those provincial and territorial governments, First Nations and other organizations. These stated accounting policies are based on Canadian public sector accounting standards.

A summary of the significant accounting policies follows:

(a) Revenue and pension contributions recognition

Revenues and pension contributions are recognized in the year in which the event that generates the revenue or the pension contribution occurs and when the effective date of the related legislation has passed and either the legislation, regulation or by-laws have been approved by the legislature or the ability to assess and collect tax has been provided through legislative convention. Revenues are reported net of tax concessions. As foregone revenue, tax concessions do not give rise to assets or expenses of the taxing government. Refundable tax credits, deductions, or exemptions provided by the federal, provincial, territorial or First Nations governments are considered tax concessions when they provide tax relief to taxpayers and relate to the types of taxes that are a revenue source administered by CRA. When the CRA does not administer the related tax revenue, these refundable tax credits, deductions, or exemptions are accounted for as transfers made through the tax system. The following policies are applied for specific streams:

(i) Income taxes, Canada Pension Plan contributions, and employment insurance premiums:

Income tax revenues are recognized when the taxpayer has earned income that is subject to tax. Income is calculated net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current-year activity. Canada Pension Plan (CPP) contributions are recognized when the employee or the self-employed person has earned pensionable income. Employment insurance (EI) premiums are recognized as revenue when the employee has earned insurable earnings. For non-resident taxpayers (individuals and corporations), revenues are recognized when the taxpayers receive income from which tax is withheld on active and inactive income they earned in Canada.

These revenues and pension contributions are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31. Revenues and pension contributions for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. An additional estimate of future reassessments is only recorded when it can be reliably determined. This is limited to assessments under objection or appealed to various courts.

(ii) Other taxes, duties and charges:

Goods and services tax (GST) and harmonized sales tax (HST) revenues on domestic goods and services are recognized at the time the goods are sold or the services provided. Revenues are reported net of input tax credits, GST/HST rebates, and the GST quarterly tax credits in the case of GST revenues. Input tax credits are the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. Rebates are granted in various circumstances, for example to relieve the tax burden in areas where the cost of housing is very high, or to allow for the recovery of taxes on purchases where the purchaser cannot claim an input tax credit. The GST quarterly tax credit for low-income individuals and families is recorded in the period it relates to. It is intended to offset the cost of the tax for low-income individuals and families.

For excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received or historical information, that relate to the fiscal year ended March 31. Miscellaneous charges are recognized as revenue when they are earned.

(iii) Interest, penalties, and other revenues:

Interest, penalties, and other revenues are recorded when they are earned. All interest and penalty revenues are reported as revenues administered for the federal government as stated in the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

(iv) Assessment – definition:

An assessment (or reassessment) of tax includes all decisions and other steps made or taken by the Minister of National Revenue and officials of the CRA under the federal, provincial, and territorial acts or sections of the acts the CRA administers to calculate tax payable by taxpayers. When verifying a taxpayer's return, the CRA uses the various tax acts it administers and other criteria it developed that are designed to substantially meet the provisions of these acts.

Reassessments include changes to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or changes the CRA initiated as a result of applying procedures to verify reporting compliance, such as taxpayer audits.

(v) Completeness of tax revenues:

The Canadian tax system is based on self-assessment, so taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The CRA has implemented systems and controls to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include audits of taxpayer records when the CRA decides they are necessary, but these procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The CRA is unable to estimate the amount of unreported tax.

(b) Expenses

(i) Transfers:

Transfers are recognized in the year during which the events giving rise to them occur, provided that the transfer is authorized and all eligibility criteria have been met by the recipient, and a reasonable estimate of the amounts can be made. Transfers made through a tax system are considered authorized when the related tax measures are authorized. Transfers to provinces for the softwood lumber products export charge are recorded as an expense in the same year that the related softwood lumber products export charge revenues are recognized.

(ii) Interest expense:

Refunds may arise late, largely from the resolution of long-standing corporate tax files in favour of the taxpayer. Interest is accrued on refunds from the date that the tax instalment was initially paid to the date that the case is resolved. The CRA records the interest expense in the fiscal year it relates to.

(iii) Administered recoveries:

Recoveries of old age security and EI benefits are recognized when assessed. Amounts not yet assessed are estimated. The CRA reports only recoveries assessed through the individual income tax system. Recoveries determined by other federal government departments are not reported in these financial statements.

(c) Cash on hand

Cash on hand refers to amounts received in the CRA's offices or by its agents up to March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada. CRA or its agents deposit funds to the Consolidated Revenue Fund on a daily basis.

(d) Amounts receivable from taxpayers

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the receivable balance results from recording accrued receivables that relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is management's best estimate of the collectability of amounts that have been assessed, including the related interest and penalties, but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age and type of tax accounts using rates based on historical collection experience. A specific allowance is calculated based on an annual review of all accounts over $10 million.

The allowance for doubtful accounts is adjusted every year through a provision for doubtful accounts and is reduced by amounts written off as uncollectible during the year. The annual provision is reported in the Statement of Administered

Expenses and Recoveries. Except for the portion related to CPP contributions, which is charged to the CPP account, the provision is charged to expenses administered for the federal government because it assumes all collection risks, as stated in the terms of the tax collection agreements with the provinces, territories, and First Nations.

(f) Amounts payable to taxpayers

Amounts payable to taxpayers include refunds and related interest assessed or estimated by the CRA that were not paid up to March 31. A significant portion of the amount payable results from recording accrued payables that relate to the current year but are not due for payment until the next fiscal year. They include refunds resulting from assessments completed after March 31, and estimates of refunds for individual and trust income tax and corporate income tax not yet assessed.

(g) Contingent liabilities

Contingent liabilities are potential liabilities resulting from, for example, previously assessed taxes recorded as revenue that might become actual liabilities if one or more future events occurs or does not occur. If the future event is likely to occur or does not occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and the revenues are reduced. If the likelihood cannot be determined or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(h) Measurement uncertainty

To prepare these statements, management has to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses, and recoveries reported. For these financial statements items, measurement uncertainty is inherent but inestimable. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. In particular, estimates are made to determine individual and trust income tax revenues, corporate income tax revenues, non-resident tax withholdings, GST/HST revenues, energy taxes, other excise tax and duty revenues, EI premiums, CPP contributions, and the related amounts receivable and payable.

A key assumption used in estimating tax revenues is that tax installments and historical information on refund rates, payments received upon filing tax returns and amounts receivable assessed are good indicators of the amount of tax revenue earned to March 31 that has not yet been assessed. Another assumption is that historical tax assessment information is a good basis to allocate tax revenues between their various components (for example, between federal, provincial and territorial tax revenues). Relevant factors such as new administered activities, legislative changes and economic factors may also be considered. Finally, the key assumption used to estimate the general allowance for doubtful accounts is that historical collection information is a good indicator of future uncollectible receivables.

Estimates are based on the best information available at the time of preparation of these statements and management believes these estimates and assumptions to be reasonable. Actual results could differ significantly from the estimates and any differences are recorded in the year the actual amounts are determined. Management monitors the accuracy of the estimates and the underlying assumptions through annual validation procedures and adjusts its estimation models as required.

3. Adoption of Public Sector Accounting Standard - PS 3510 Tax Revenues

A new accounting standard issued by the Public Sector Accounting Board - Section PS 3510 on Tax Revenues - became effective on April 1, 2012, it affects mainly the classification of expenses. In general, CRA previously accounted for expenses based on the form of their payment. Except for the GST quarterly tax credit for low-income individuals and families, when a separate cheque was issued to a taxpayer, a separate expense was reported in the Statement of Administered Expenses and Recoveries (such as sales tax credits).

The main impact of adopting the standard is that expenses are now classified based on their substance. If an expense provides a financial benefit other than a relief of taxes, it is now classified as transfer made through the tax system such as the corporate refundable investment tax credit, where in the past, it was netted against the related administered revenues. Alternatively, if an expense provides tax relief to a taxpayer and relates to revenue administered by CRA, this expense is considered a tax concession and is now being netted against tax revenues. For example, most provincial sales tax credits are considered forgone revenues and are netted against the related provincial portion of HST administered by CRA. When CRA does not administer the related tax revenue, these expenses are accounted for as transfers made through the tax system (such as the Ontario energy and property tax credit). When classified as transfers made through the tax system, these expenses have been presented under Transfers to individuals or Transfers to corporations in the Statement of Administered Expenses and Recoveries.

The CRA has applied the changes retroactively and has restated the comparative figures accordingly. The impact is as follows:

	2012		
	As previously stated	**Effect of change**	**Restated amounts**
	(in thousands of dollars)		
Statement of Administered Revenues and Pension Contributions			
Federal administered revenues			
Individuals and trusts	119,473,450	1,267,620	120,741,070
Corporate	31,701,857	1,939,210	33,641,067
Provincial and territorial governments and First Nations administered revenues			
Individuals and trusts	52,980,312	534,526	53,514,838
Corporate	13,323,379	1,459,645	14,783,024
Provincial portion of harmonized sales tax (Note 15)	28,029,190	(2,877,231)	25,151,959
Other revenues (Note 16)	276,567	(248,187)	28,380
Other revenues administered by the CRA and paid or payable directly to the province (Note 16)	(248,187)	248,187	-
Statement of Administered Expenses and Recoveries			
Federal administered expenses			
Transfers to individuals			
Working income tax benefit	-	1,131,989	1,131,989
Refundable medical expense supplement	-	135,631	135,631
Transfers to corporations			
Refundable investment tax credit	-	1,580,706	1,580,706
Film and video tax credits	-	358,504	358,504
Provincial and territorial administered expenses			
Transfers to individuals			
Family benefit programs	1,047,658	20,717	1,068,375
Other property tax credits	-	279,235	279,235
Other transfers to individuals	-	317,173	317,173
Ontario sales tax transition benefit	1,372,014	(1,372,014)	-
Sales tax credits	1,587,816	(1,587,816)	-
Transfers to corporations			
Refundable investment tax credits	-	786,108	786,108
Film and television production services tax credits	-	673,537	673,537

Nova Scotia worker's compensation payments ($246,684 thousands in 2012) were previously reported as other revenues because collection activities, for which the cash flow was going through the Consolidated Revenue Fund, were recognized as revenues. Per the new standard, collection activities are no longer meeting the revenue recognition criteria because CRA does not assess nor administer those payments. However, CRA still has accountability for the related cash flow so they are disclosed in Note 7 Amounts payable to the provinces. These cash flow activities are still reported as part of the Statement of Administered Cash Flows.

4. Amounts receivable from taxpayers

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the receivable balance results from recording accrued receivables that relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

The following table shows details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. Amounts receivable from individuals and employers include Canada Pension Plan contributions and employment insurance premiums as applicable.

	2013			2012
	Gross	**Allowance for doubtful accounts**	**Net**	**Net**
	(in thousands of dollars)			
Income taxes				
Individuals	49,082,127	(6,488,468)	42,593,659	39,800,503
Employers	17,015,514	(1,078,471)	15,937,043	16,399,058
Corporations	13,753,844	(1,869,359)	11,884,485	10,735,024
Non-residents	1,208,659	(134,327)	1,074,332	1,059,781
GST/HST	18,199,542	(2,622,996)	15,576,546	14,468,984
Excise taxes and duties and miscellaneous charges	1,945,092	(51,627)	1,893,465	1,807,265
Total	**101,204,778**	**(12,245,248)**	**88,959,530**	**84,270,615**

Changes in the allowance for doubtful accounts include the following:

	Allowance for doubtful accounts March 31, 2012	**Provision for doubtful accounts**	**Write-offs**	**Allowance for doubtful accounts March 31, 2013**
	(in thousands of dollars)			
Income taxes				
Individuals	(6,096,866)	(1,714,557)	1,322,955	(6,488,468)
Employers	(1,039,038)	(379,946)	340,513	(1,078,471)
Corporations	(1,785,710)	(489,397)	405,748	(1,869,359)
Non-residents	(113,939)	(89,133)	68,745	(134,327)
GST/HST	(2,841,349)	(613,197)	831,550	(2,622,996)
Excise taxes and duties and miscellaneous charges	(45,430)	(16,667)	10,470	(51,627)
Total	**(11,922,332)**	**(3,302,897)**	**2,979,981**	**(12,245,248)**

The provision of $3,303 million ($3,813 million in 2012) reported above includes an amount of $3,215 million ($3,711 million in 2012) recorded as an expense administered on behalf of the federal government (see Note 2(e)) and $88 million ($102 million in 2012) charged against expenses administered on behalf of the Canada Pension Plan.

5. Amounts receivable under the tobacco civil settlements

On July 31, 2008, the federal and provincial governments entered into civil settlement agreements with two tobacco companies to resolve potential civil claims. Under the terms of the agreements, payments totalling $850 million are to be made to Canada, for Canada and the provinces. The federal government's share is $325 million and the provincial governments' share is $525 million. The settlement agreements state that the amounts will be fully paid by 2023. Up to $800 million is expected to be received in the first 10 years of the agreements and about $50 million in the following five years. These amounts are recorded at the nominal value.

The following table gives details of the amounts receivable related to the tobacco civil settlement agreements:

	2013			2012		
	Government of Canada share	**Provincial share**	**Total**	**Government of Canada share**	**Provincial share**	**Total**
	(in thousands of dollars)					
Balance, beginning of year	264,000	262,532	526,532	279,000	309,227	588,227
Amounts received during the year	(34,000)	(29,615)	(63,615)	(15,000)	(46,695)	(61,695)
Balance, end of year	**230,000**	**232,917**	**462,917**	**264,000**	**262,532**	**526,532**

6. Amounts payable to taxpayers

The following table gives details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2013	2012
	(in thousands of dollars)	
Individuals	31,991,799	30,261,028
Corporations	11,512,693	9,860,976
GST/HST	11,028,436	10,535,003
Employers and non-residents	296,423	248,396
Excise taxes and duties and miscellaneous charges	58,687	50,866
Total	**54,888,038**	**50,956,269**

7. Amounts payable to provinces

The following table gives details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2013	2012
	(in thousands of dollars)	
Provincial share of the tobacco civil settlements (Note 4)	232,917	262,532
Amounts payable to Quebec:		
Individual income tax witholdings	195,876	218,860
GST refunds issued by Quebec	83,438	113,483
Quebec sales tax applicable to selected listed financial institutions	18,417	-
Nova Scotia worker's compensation	2,765	1,503
Ontario corporate tax and opportunities fund	2,738	1,709
Softwood lumber products export charge net of costs incurred by the federal government	491	59,676
Total	**536,642**	**657,763**

The CRA is acting as an agent for the provinces under the tobacco civil settlements. The CRA's liability to the provinces for their expected share of the settlement amounts is limited to the amounts that will ultimately be collected from the tobacco companies.

Amounts payable to provinces, territories, and other organizations, which are settled by other departments such as the Department of Finance for provincial, territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside the CRA's responsibility.

The CRA received $249 million in Nova Scotia worker's compensation payments during the year ($247 million in 2012), these payments are transferred directly to the province. Since this is a flow through arrangement, it is not reported as administered revenues.

8. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST for non-resident registrants and certain licensees for excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table shows activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2013	2012
	(in thousands of dollars)	
Balance, beginning of year	128,692	107,892
Receipts and other credits	52,474	52,173
Payments and other charges	(31,576)	(31,373)
Balance, end of year	**149,590**	**128,692**
Securities held in trust	(140)	(140)
Net deposit accounts	**149,450**	**128,552**

9. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the fund) and other administered liabilities payable by the CRA out of the fund.

The net cash deposited in the Consolidated Revenue Fund of the Government of Canada includes amounts the CRA receives on behalf of the federal government, provinces, territories, and other organizations and deposits in the fund, less refunds and payments issued from the fund during the year.

The following table shows the change in the net amount due to the Consolidated Revenue Fund during the fiscal year:

	2013	2012
	(in thousands of dollars)	
		Restated (Note 3)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year	38,282,830	34,560,496
Total administered revenues and pension contributions	346,838,329	334,731,526
Total net administered expenses and recoveries	(23,626,349)	(23,809,702)
Revenues paid or payable directly to a province	(22,011)	-
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(321,149,552)	(307,199,490)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	**40,323,247**	**38,282,830**

10. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada, or the Supreme Court of Canada. As of March 31, 2013, $20,566 million was under objection at the CRA level ($19,944 million for 2012) and $5,080 million was being appealed to the courts ($4,840 million for 2012). The CRA has recorded, in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers, as applicable, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

11. Quebec abatement

The Quebec abatement is provided to Quebec residents under the *Income Tax Act* (ITA) and the *Federal-Provincial Fiscal Arrangement Act*. Residents of Quebec subtract 16.5 per cent of the Basic Federal Tax owed to the Government of Canada when compiling their taxes while the government of Quebec receives additional tax room. In accordance with the *Federal-Provincial Fiscal Revision Act, 1964* and the *Federal-Provincial Fiscal Arrangement Act*, the Government of Quebec pays the federal government the value of the Quebec Abatement through an equivalent reduction in transfer payments to the province of Quebec for programs delivered by the federal government.

The Quebec Abatement reduces the federal tax payable under the *Income Tax Act* and is therefore accounted for as a tax concession netted against individual income tax revenues. For the fiscal year ended March 31, 2013, the Quebec abatement assessed by CRA was $3,998 million ($3,892 million for 2012).

12. Goods and services tax revenues

The GST reported on the Statement of Administered Revenues and Pension Contributions includes the federal portion of HST. It is net of input tax credits (ITC), rebates, and the GST quarterly tax credit for low income individuals and families that the CRA administers. It does not include GST revenues on imported goods, which are administered and reported by the Canada Border Services Agency. The CRA has sole responsibility for administering all ITC, including those claimed on imported goods. ITC relating to GST on imports are not accounted for separately from ITC relating to GST on domestic transactions.

The following table shows details of the GST revenues that the CRA administers for the Government of Canada as reported in the Statement of Administered Revenues and Pension Contributions:

	2013	2012
	(in thousands of dollars)	
Gross GST revenues	137,259,616	134,594,967
ITC	(117,530,871)	(114,752,785)
GST revenues net of ITC	19,728,745	19,842,182
GST rebates	(5,355,266)	(5,575,571)
GST quarterly tax credits for low-income individuals and families	(4,030,474)	(3,894,064)
GST net revenues	**10,343,005**	**10,372,547**

13. Miscellaneous charges

The following table details the miscellaneous charges that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2013	2012
	(in thousands of dollars)	
Softwood lumber products export charge	160,147	234,271
Air travellers security charge	635,576	631,003
Total	**795,723**	**865,274**

14. Interest, penalties, and other revenues

Various tax legislations give the CRA the authority, under certain conditions, to assess interest and penalties related to taxes due and regulations that taxpayers have not complied with. The CRA has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as processing delays caused by the CRA, financial hardship experienced by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments.

The following table gives details on interest, penalties, and other revenues that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2013	2012
	(in thousands of dollars)	
Gross interest and penalties	4,064,285	3,787,379
Interest and penalties waived under authority of the *Income Tax Act*	(270,333)	(135,986)
Net interest and penalties	3,793,952	3,651,393
Fines imposed under various acts	12,346	10,981
Other (expenses) revenues	(3,742)	1,527
Interest, penalties, and other revenues	**3,802,556**	**3,663,901**

15. Provincial portion of harmonized sales tax

During the year, CRA administered the provincial portion of the HST for the provinces of Ontario, British Columbia, Nova Scotia, New Brunswick, and Newfoundland and Labrador. CRA recorded these revenues in accordance with the accounting policies described in Note 2.

On April 18, 2012, the province of Prince Edward Island (PEI) announced that it has entered into an agreement with the government of Canada in order to bring Prince Edward Island into the HST revenue allocation framework effective April 1, 2013. On August 26, 2011, British Columbia announced that it will return to the provincial sales tax. These changes will be effective April 1, 2013.

The provincial portion of HST reported on the Statement of Administered Revenues and Pension Contributions is net of input tax credits (ITC), rebates and credits accounted as tax concessions. It includes the recaptured ITC, which applies to certain types of supplies purchased by large businesses. It does not include ITC that importers claim for the GST they paid on commercial imports and it does not include the provincial portion of HST collected on imported goods, which is administered and reported by the Canada Border Services Agency.

The following table details the provincial portion of HST revenues as reported in the Statement of Administered Revenues and Pension Contributions:

	2013	2012
	(in thousands of dollars)	
		Restated (Note 3)
Provincial portion of gross HST revenues	120,582,358	118,618,771
Provincial portion of ITC	(87,107,526)	(85,981,374)
Provincial portion of HST rebates	(1,146,346)	(1,062,070)
Recaptured ITC	629,225	700,099
Transitional tax	47,226	77,747
HST provincial rebates	(4,310,690)	(4,323,983)
Provincial portion of HST net revenues before credits	**28,694,247**	**28,029,190**
Provincial sales tax credits		
Ontario sales tax credit	(1,233,577)	(1,088,523)
British Columbia harmonized sales tax credit	(317,790)	(313,194)
Nova Scotia affordable living tax credit	(66,936)	(65,472)
Newfoundland and Labrador harmonized sales tax credit	(39,193)	(38,028)
Ontario sales tax transition benefit	(15,316)	(1,372,014)
Total provincial sales tax credits	**(1,672,812)**	**(2,877,231)**
Net Provincial portion of HST	**27,021,435**	**25,151,959**

16. Other revenues

The following table gives details of other revenues the CRA administers for provincial and territorial governments and First Nations as reported in the Statement of Administered Revenues and Pension Contributions. As provided under an agreement reached with the Government of Canada on March 28, 2012, the CRA started to administer the Quebec sales tax applicable to a selected list of financial institutions (SLFI) as of January 1, 2013.

	2013	2012
	(in thousands of dollars)	
		Restated (Note 3)
Quebec sales tax applicable to selected listed financial institutions	22,011	-
First Nations sales tax and GST	21,893	18,515
First Nations income tax	15,479	9,865
Total	**59,383**	**28,380**

17. Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan

The following table shows details of the transactions the CRA administers on behalf of the Canada Pension Plan as reported in the Statement of Administered Revenues and Pension Contributions:

	2013	2012
	(in thousands of dollars)	
Pension contributions	41,578,539	38,862,030
Interest and penalties	164,438	164,568
Total	**41,742,977**	**39,026,598**

18. Related-party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The CRA deposits all monies received to the Consolidated Revenue Fund (CRF), and the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for amounts such as provincial, territorial, and First Nations taxes, for which the CRA administers the revenue. Old age security benefit recoveries, Canada Pension Plan contributions (net of overpayments refunded by the CRA), and employment insurance premiums are credited to Human Resources and Skills Development Canada, which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Operating Account. The CRA also administers a refund set-off program that can use individuals' tax refunds to pay debts they owe under federal, provincial, or territorial programs.

The CRA provides collection services to the Canada Border Services Agency under Part V.I of the *Customs Act*. It also provides collection services to Human Resources and Skills Development Canada for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan*, and the *Old Age Security Act*. The related payments are made directly to either the Canada Border Services Agency or Human Resources and Skills Development Canada, who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the CRA's accounts.

Employment insurance premiums administered on behalf of the federal government include the employer's share that the federal government pays. The GST declared to the CRA includes the GST the federal government pays to its suppliers on domestic purchases. The GST that other federal government departments collect is deposited to the CRF, declared to the CRA, and included in the GST domestic revenues.

19. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation used in the current year, particularly as it relates to the application of the Public Sector Accounting Standard Board Section PS 3510 as discussed in Note 3.

Financial Statements Discussion and Analysis – Administered Activities

Introduction

The Financial Statements - Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency on behalf of the Government of Canada, provinces, territories, First Nations, and other government organizations. Revenues and expenses are recognized on an accrual basis. Tax revenues are net of tax concessions. Expenses which provide a financial benefit other than relief of taxes are classified as transfers made through the tax system.

Tax revenues

The Canada Revenue Agency collects the majority of federal tax revenues. Other agencies and departments, such as the Canada Border Services Agency, account for the balance of total federal revenues reported in the Public Accounts of Canada. For further information on revenues collected by the Government of Canada as a whole, please refer to the Annual Financial Report of the Government of Canada, available at www.fin.gc.ca/purl/afr-eng.asp.

Revenues administered on behalf of the Government of Canada

Federal administered revenues ($000)	**2013**	**2012**	**+/-**	**%**
Income tax revenues				
Individual and trust	125,817,451	120,741,070	5,076,381	4.2%
Corporate	34,985,855	33,641,067	1,344,788	4.0%
Non-resident tax withholdings	5,072,674	5,300,928	(228,255)	(4.3%)
	165,875,980	159,683,065	6,192,915	3.9%
Other taxes, duties, and charges				
Goods and services tax	10,343,005	10,372,547	(29,542)	(0.3%)
Energy taxes	5,324,250	5,268,716	55,534	1.1%
Other excise taxes and duties	3,328,525	3,342,813	(14,288)	(0.4%)
Miscellaneous charges	795,723	865,274	(69,551)	(8.0%)
	19,791,503	19,849,350	(57,847)	(0.3%)
Employment insurance premiums	20,795,737	19,030,411	1,765,326	9.3%
Interest, penalties, and other revenues	3,802,556	3,663,901	138,655	3.8%
	24,598,293	22,694,312	1,903,981	8.4%
Net revenues administered on behalf of the Government of Canada	**210,265,776**	**202,226,727**	**8,039,049**	**4.0%**

Revenues were $210.2 billion in 2013, approximately $8.0 billion higher than in 2012. All administered revenues were higher except non-resident tax withholdings, goods and services tax, other excise taxes and duties, and miscellaneous charges.

Individual and trust income tax

Individual and trust income tax revenues increased by $5,076.4 million, or 4.2%. The increase reflects continued economic growth from higher employment and wages, and is in line with the increase in individual taxable income.

Corporate income tax

Corporate income tax revenues increased by $1,344.8 million or 4.0%. While revenues showed a decrease due to reductions in tax rates, this was offset by adjustments to 2013 revenues to recognize higher corporate income tax revenues than what had been estimated for 2012.

Non-resident tax withholdings

Non-Resident Tax Withholdings revenues decreased by $228.3 million or 4.3%. Revenues were impacted by a decline in the resource sector.

Goods and services tax

GST revenues decreased by $29.5 million or 0.3%. The decline reflects the impact of higher input tax credits from the resource sector. This was offset by the growth in retail sales and higher GST on real property.

Energy taxes

Energy taxes increased by $55.5 million or 1.1%. The increase stems from a modest increase in gasoline and diesel fuel revenues, as well as higher aviation fuel revenues.

Other excise taxes and duties

Other excise taxes and duties decreased by $14.3 million or 0.4%. This decrease stems from lower tobacco duty revenues offset in part by higher beer duty and liquor duty, as well as higher revenues on automotive air conditioners.

Miscellaneous charges

Miscellaneous charges decreased by $69.6 million or 8.0%. This was due to lower softwood lumber export charge revenues, especially towards the end of the year.

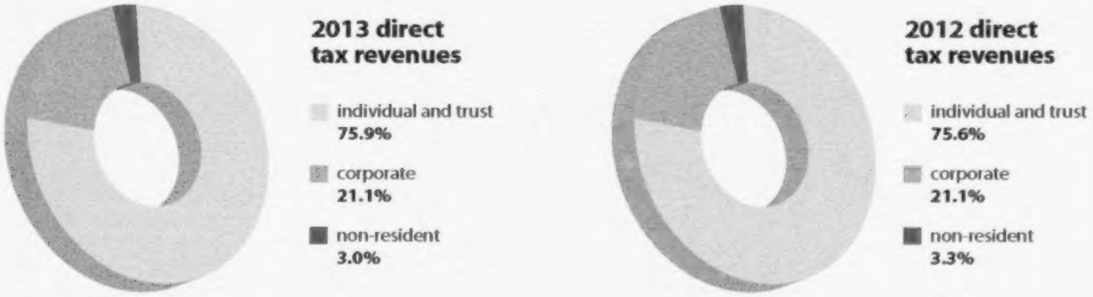
Employment insurance premiums

Employment insurance premiums increased by $1,765.3 million or 9.3%. The increase reflects continued economic growth and an employment insurance premium rate increase.

Interest, penalties, and other revenues

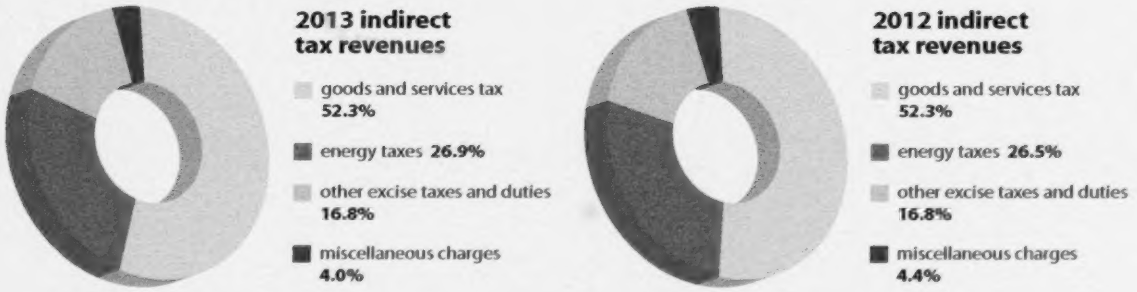
Interest, penalties, and other revenues increased by $138.7 million or 3.8%. This reflects higher individual and corporate tax receivables, offset in part by large corporate tax reassessments.

Figure 1: Direct tax revenues



As shown in figure 1, the distribution of direct tax revenues remained stable in 2013.

Figure 2: Indirect tax revenues



As shown in figure 2, the distribution of indirect tax revenues remained stable in 2013.

Revenues administered on behalf of the provincial, territorial governments, First Nations, and the Canada Pension Plan

Provincial and territorial governments, First Nations, and Canada Pension Plan ($000)	**2013**	**2012**	**+/-**	**%**
Income tax – individual and trust	54,702,467	53,514,838	1,187,629	2.2%
Income tax – corporate	13,046,291	14,783,024	(1,736,733)	(11.7%)
Harmonized sales tax	27,021,435	25,151,959	1,869,476	7.4%
Other revenues	59,383	28,380	31,003	109.2%
Revenues administered on behalf of provincial and territorial governments and First Nations	**94,829,576**	**93,478,201**	**1,351,375**	**1.4%**
Pension contributions, interest and penalties administered on behalf of the Canada Pension Plan	**41,742,977**	**39,026,598**	**2,716,379**	**7.0%**

Provincial, territorial, and First Nations revenues were $94.8 billion in 2013, approximately $1.4 billion higher than in 2012. Canada Pension Plan Revenues were $41.7 billion in 2013; $2.7 billion more than in 2012.

Income tax revenues - individual and trust

Individual and trust income tax revenues increased by $1,187.6 million, or 2.2%. The increase stems from continued economic growth and is in line with the increase in individual taxable income.

Income tax revenues - corporate

Corporate income tax revenues decreased by $1,736.7 million or 11.7%. This decrease is mostly due to adjustments to 2013 revenues to recognize lower corporate income tax revenues than what had been estimated for 2012.

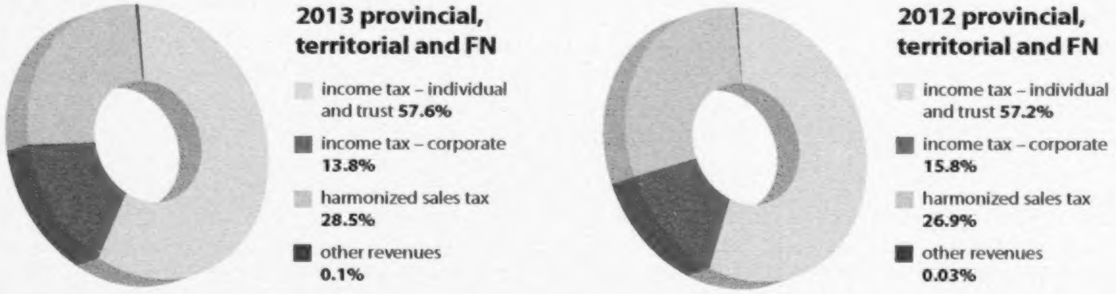
Harmonized sales tax (HST)

HST revenues increased by $1,869.5 billion or 7.4%. The increase is due to the growth in retail sales and the end of the Ontario sales tax transitional benefit last year. On August 26, 2011 the Province of British Columbia announced that it would return to the provincial sales tax; this change was effective April 1, 2013. During 2012-2013, the CRA continued to administer the HST in British Columbia. On April 18, 2012, the province of Prince Edward Island announced that it had entered into an agreement with the government of Canada in order to bring Prince Edward Island into the HST revenue allocation framework effective April 1, 2013.

Other revenues

Other revenues increased by $31.0 million or 109.2%, due to the administration of QST applicable to selected listed financial institutions effective January 1, 2013.

Figure 3: Revenues administered on behalf of the provincial and territorial governments and First Nations



As shown in figure 3, the distribution of revenues administered on behalf of the provincial and territorial governments, and First Nations remained relatively stable in 2013. The proportion of corporate income tax did however decrease due to adjustments to 2013 revenues to recognize lower corporate income tax revenues than what had been estimated for 2012.

Revenues administered on behalf of the Canada Pension Plan

Canada Pension Plan revenues rose by $2,716.4 million or 7.0%. The increase reflects continued economic growth.

Expenses and recoveries administered on behalf of the Government of Canada, provincial, and territorial governments

Administered expenses and recoveries ($000)	**2013**	**2012**	**+/-**	**%**
Federal administered expenses	20,267,993	20,778,586	(510,593)	(2.5%)
Federal administered recoveries	(1,438,101)	(1,394,889)	(43,212)	3.1%
Net expenses and recoveries administered for the Government of Canada	**18,829,892**	**19,383,697**	**(553,805)**	**(2.9%)**
Provincial and territorial administered expenses	**4,708,695**	**4,323,666**	**385,029**	**8.9%**
Provision for doubtful accounts administered for the Canada Pension Plan	**87,762**	**102,339**	**(14,577)**	**(14.2%)**
Total net administered expenses and recoveries	**23,626,349**	**23,809,702**	**(183,353)**	**(0.8%)**

Net federal expenses and recoveries were $18,829.9 million in 2013, $553.8 million lower than in 2012. Net provincial and territorial expenses were $4,708.7 million, $385.0 million higher than in 2012.

Federal administered expenses

Federal administered expenses decreased by $510.6 million or 2.5%. The provision for doubtful accounts decreased due to a lower increase in the allowance for doubtful accounts than last year. Interest expense was lower due to a decline in interest on corporate tax accounts. This was offset in part by higher child tax benefits, which rose due to the indexation of entitlements.

Federal administered recoveries

Federal administered recoveries rose by $43.2 million or 3.1% due to higher old age security recoveries. This increase stems from a rise in the number of old age security benefit recipients and a growth in taxable income.

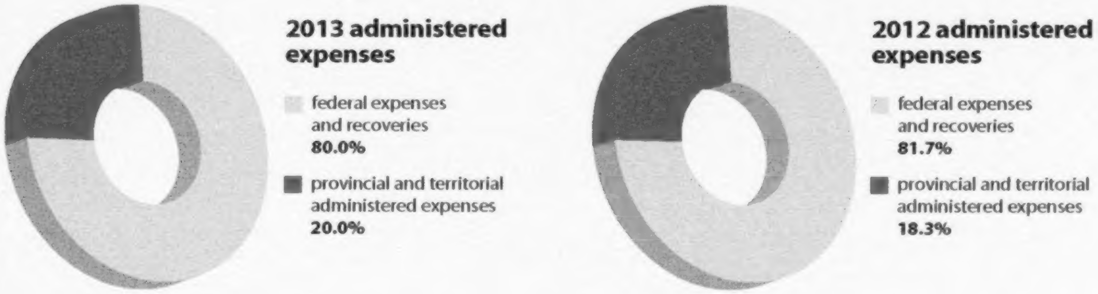
Net expenses administered for provinces and territories

Net expenses administered for provinces and territories increased by $385.0 million or 8.9%. The increase is due to the impact of a full year of the Ontario energy and property tax credit. This was partially offset by lower other property tax credits, which resulted from the termination of the Ontario property tax credit subsequently replaced by the Ontario energy and property tax credit.

Provision for doubtful accounts administered for the Canada Pension Plan

The provision for doubtful accounts administered for the Canada Pension Plan decreased by $14.6 million or 14.2%. This decrease was due to a lower increase in the allowance for doubtful accounts than last year.

Figure 4: Expenses and recoveries administered on behalf of the Government of Canada, provincial, and territorial governments



As shown in figure 4, the distribution of expenses and recoveries administered on behalf of the Government of Canada, provincial, and territorial governments remained relatively stable in 2013. The proportion of federal administered expenses and recoveries has however decreased slightly due to the lower provision for doubtful accounts.

Summary of the assessment of effectiveness of the systems of internal control over financial reporting and the action plan of the Canada Revenue Agency

Fiscal year 2012-2013

1. Introduction

This document provides summary information on the measures taken by the Canada Revenue Agency (CRA) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management, assessment results, and related action plans.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with, and proportionate to, the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process of identifying key risks, assessing the effectiveness of associated key controls, as well as adjusting and monitoring them to support continuous improvement. As a result, the scope, pace, and status of the CRA's assessments of the effectiveness of their systems of ICFR will vary by engagement type based on risks and the unique circumstances of the CRA's agency and administered programs.

Detailed information on the CRA's authority, mandate, and programs can be found in Departmental Performance Report at www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html and Report on Plans and Priorities www.cra-arc.gc.ca/gncy/rprts/menu-eng.html.

Audited financial statements

For financial reporting purposes, the activities of the CRA have been divided into two sets of financial statements: agency activities and administered activities:

- agency activities include those operational revenues and expenses that the CRA manages and utilizes in running the organization; and
- administered activities include those revenues and expenses that are administered for organizations other than the CRA, such as the federal, provincial, territorial governments, and First Nations.

The CRA has issued annual audited financial statements since 1999-2000 and has consistently received an unmodified opinion from the Auditor General of Canada.

2. CRA system of internal control over financial reporting

2.1 Internal control management

The CRA has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control, which includes:

- A departmental internal control management framework and policies, approved by the Commissioner and the Board of Management, which is comprised of a:

  a) CRA Policy on Financial Management Governance (approved in 2010), which includes the:

  (i) need to maintain an effective internal control framework and management's responsibility over their financial controls;

(ii) roles and responsibilities of the Commissioner/Chief Executive Officer (CEO), the Chief Financial Officer (CFO), Chief Audit Executive (CAE), Chief Information Officer (CIO), Assistant Commissioners, and other senior managers with respect to financial management and control within the CRA; and

(iii) role and responsibility of the Audit Committee of the Board of Management to review and provide direction.

b) CRA Policy on Internal Financial Control (approved in 2010), which includes the need to maintain an effective risk-based system of internal controls over financial reporting to document, test, and assess controls on an ongoing basis, including taking timely corrective measures when issues arise. It also describes the roles and responsibilities of the CEO, CFO, CAE, Assistant Commissioners, and the Audit Committee of the Board of Management regarding how they are to maintain and strengthen the effectiveness of the CRA's internal controls.

- A CEO/CFO Certification Steering Committee (created and approved in 2008), with a clearly stated mandate, terms of reference, and membership requirement as per the CRA Policy on Internal Financial Control. This committee provides direction and guidance over the CRA's ICFR program, reviews progress against planned assessments, approves control frameworks, tests results and action plans, discusses significant issues or concerns, and recommends control assessment reports for the Audit Committee's final approval prior to publication. It is chaired by the CFO, and membership includes all Assistant Commissioners (including the CAE and CIO) involved in financial controls, as well as the Director General of the Financial Administration Directorate, the Director of the Internal Controls Division, and the Director of Internal Audit. They meet each spring (unless special situations arise that require an additional meeting during the year), and a fall update is provided via email.
- The Audit Committee of the Board of Management receives an update on Internal Control assessment results, action and remediation activities, and progress against plans during the spring and other times throughout the year as required.
- A CRA Code of Ethics and Conduct, (updated and approved in 2013), which includes our mission, vision, values, and standards of conduct for which each employee is accountable.
- Ongoing communication and training on statutory requirements, policies, and procedures for sound financial management and control.

2.2 Service arrangements relevant to financial statements

2.2.1 CRA reliance on other Government service providers

The CRA relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

Common arrangements:

- Public Works and Government Services Canada centrally issues salary payments as per the CRA's Delegation of Authority and provides accommodation services.
- Treasury Board Secretariat provides the CRA with information used to calculate various accruals and allowances.
- The Department of Justice provides legal services to the CRA.
- Shared Services Canada (SSC) manages IT general controls regarding system operations, security, and maintenance in the areas of email, data center, and network services.

Specific arrangements:

- Revenu Québec is responsible for the joint administration of the goods and services tax and Quebec sales tax for businesses in the Province of Quebec.

2.2.2 CRA services that other departments and agencies rely on

Other Government departments rely on the CRA for the processing of certain transactions or information that affect financial statements as follows:

- Canada Border Services Agency for information technology services, including commensurate internal controls testing for general computer controls, as well as collection services on their behalf for duties, taxes, fees, penalties, or other amounts owing under the *Customs Act*, *Customs Tariff*, *Excise Tax Act*, *Excise Act 2001*, and/or related regulations.
- Department of Finance for the determination of tax receivables and payables under tax collection agreements with provincial and territorial governments and First Nations.
- Human Resources and Skills Development Canada for the collection of its accounts receivable and the administration of a number of activities related to the Canada Pension Plan and Employment Insurance Operating Account.

3. CRA assessment results during fiscal year 2012-2013

During 2012-2013, the CRA completed the ongoing monitoring testing of its agency activities, and the operating effectiveness assessment of its administered corporation income tax program as planned.

It is important to note that the CRA's assessments related to its internal controls over financial reporting for its administered activities that fall under the Tax Collection Agreements (TCAs) with provinces and territories for the individual (T1), corporation (T2), and trust (T3) income tax programs are also audited by the Office of the Auditor General (OAG).

3.1 Ongoing monitoring of key controls

In the current year, the CRA completed its second ongoing monitoring (OGM) testing exercise to assess the ongoing design and operating effectiveness of its Agency activities as follows:

- 100% of the **entity level control** activities related to the CRA's Control environment, risk assessment, information and communication, and monitoring controls;
- 60% of the **general computer controls** related to information systems operations, information security, and systems implementation and maintenance. This included the testing of controls relevant to CBSA, the determination of which control activities were transferred to the SSC, and the testing of the control activities, which are jointly owned with SSC; and
- 90% of the **business process control** activities for capital assets, procurement and vendor master data, payroll, budget and projections, and financial close and reporting.

As a result of this extensive OGM testing, the CRA found that for the most part, the key controls tested performed as intended, and identified these remediation requirements:

- although most system access roles have been remediated to address access to sensitive transactions, as well as Segregation of Duty (SOD) conflicts within a business line process (e.g., payroll, procurement, financial close), the process surrounding the granting and monitoring of access to prevent SOD conflicts still needs to be improved when it comes to user's access privileges that cross business lines, i.e., need for CRA-wide policy and monitoring; and
- improvements regarding the retention of documentation for audit purposes.

3.2 Operating effectiveness testing of key controls

The CRA completed its readiness assessment of the operational effectiveness for the T2 income tax program. This included full testing of all activities related to the following control objectives:

- **Entity level control** activities related to the CRA's Control environment, risk assessment, information and communication, and monitoring controls (results were also used for the agency activities' OGM assessment);
- **General computer control** activities related to information systems operations, information security, and systems implementation and maintenance. This included the determination of which control activities were transferred to the SSC, and the testing of 20% control activities, which are owned solely by the SSC, and 33% which are jointly owned with SSC; and

- **Business process control** activities for all six of the business processes relevant to internal controls over financial reporting, i.e., return and adjustment collection and entry, assessment and reassessment, master data maintenance and segregation of duties, legislation management, reporting management, and end-user computing.

The key controls tested by CRA were found to be operating effectively, except for the following control objectives:

a) logical security tools and techniques are designed and implemented to restrict access to authorized users of programs, data, and other information resources;

b) documentation exists to demonstrate that modifications to existing application systems and data structures are appropriately tested and approved by management before implementation; and

c) system access is restricted to prevent unauthorized access and segregation of duty is appropriate.

Remediation action plans were developed for all key controls where exceptions were noted with some action plans having been already implemented to address the exceptions.

4. CRA action plan

4.1 Progress during fiscal year 2012-2013

During 2012-2013, the CRA has continued to make significant progress in documenting, assessing, and improving its key controls. Below are two tables summarizing the progress made regarding the documentation of the control frameworks for upcoming assessment engagements, and the remediation of action plans from previous engagements. The actual results for the two assessments completed this year are described in section 3.

All commitments were completed as planned and on schedule. These tables describe the progress and status of each engagement type based on the plans identified in the 2011-2012 annex.

Element in previous year's action plan	Status
Document the scope and control framework for the goods and services tax (GST) programs	Scope has been determined, risks have been assessed, and the control framework has been documented as planned for the GST programs (i.e., GST Rebates, GST Returns, and GST Credits). Design effectiveness testing plans are in place to conduct the assessment as planned in 2013-2014.
Document the scope and control framework for the T1 unapplied taxes/source deduction programs	Scope has been determined, risks have been assessed, and the control framework has been documented as planned for the T1 unapplied tax and source deductions. Design effectiveness testing plans are in place to conduct the assessment as planned in 2013-2014.
Document the scope and control framework for the T3 trust income tax	Scope has been determined, a preliminary risk assessment has been done, and documentation of the control framework has begun as planned in 2012-2013.
Follow-up testing of activities requiring remediation from previous assessments	The CRA has followed up on all the action plans from the: • 2011-2012 agency activities testing as part of ongoing monitoring; • T2 design effectiveness assessment and OAG audit report as at November 30, 2008; and • T1 design effectiveness assessment and OAG audit report as at November 30, 2010. Overall results have been positive and approximately 75% of the recommendations made have been implemented.

4.2 Status and action plan for the next fiscal year and subsequent years

The CRA's plan, based on an annual validation of the high-risk processes and controls related to the control assessments required for its agency and administered activities, is shown in the following three tables.

4.2.1 - Agency activities

The CRA rotational ongoing monitoring plan to assess its agency activity controls over the next three years is based on an annual validation of the high-risk controls and related adjustments to the ongoing monitoring plan as required.

Rotational ongoing monitoring plan for the CRA's internal control over financial reporting related to its Agency activities			
	Operating effectiveness testing rotation		
Key control areas	**2013-2014**	**2014-2015**	**2015-2016**
Entity level controls	✓	✓	✓
IT general controls under CRA management	✓	✓	✓
Capital assets		✓	
Procurement and vendor master data	✓		✓
Payroll		✓	
Budget and projections		✓	
Financial close and reporting	✓		✓

4.2.2 - Administered activities assessment not related to the Tax Collection Agreements (TCA)

	Assessment elements			
Assessment engagements	**Document framework**	**Design effectiveness testing and remediation**	**Operational effectiveness testing and remediation**	**Ongoing monitoring rotation**
Goods and services tax	Completed 2012-2013	2013-2014	2016-2017	Will annually test new, changed, remediated controls. Once each assessment engagement reached the on-going monitoring stage, each tax program will be fully reassessed on a rotational three year basis
Non-resident income tax	2014-2015	2015-2016	To be determined	
Excise tax	To be determined			
Benefits				

4.2.3 - Administered activities assessments, which are TCA related and audited by the OAG

For TCA related engagements the CRA performs the readiness testing and submits the results along with a controls assessment report to the OAG who audit them in accordance with Canadian Standard on Assurance Engagements 3416.

Once the audit results are completed and the audit opinion is signed, the report is provided to the federal, provincial, and territorial Ministers of Finance as required under the tax collection agreements. The distribution of this protected report is very limited due to the sensitive nature of its contents.

TCA related control assessment do not go into a regular ongoing monitoring phase because complete re-assessment engagements are required to fully test all control activities to ensure that the selected income tax program is still designed and operating effectively. As such, the timing and frequency of these complete control assessment audits are determined in conjunction with the OAG and will continue to be conducted on a rotational annual basis as long as the tax collection agreements are in place.

The high-level results of these assessments are also used to fulfil the Treasury Board and CRA Internal Financial Control policy requirements, and are included in this annex in the year they are reported.

Assessment engagements	**Assessment elements**		
	Document framework	**Design effectiveness testing and remediation**	**Operational effectiveness testing and remediation**
T2 corporation income tax	Completed 2007-2008	Completed 2008-2009 (CRA)	Completed 2011-2013 (CRA)
		Completed 2009-2010 (OAG)	2013-2014 (OAG)
T1 individual income tax	Completed 2009-2010	Completed 2010-2011 (CRA)	2014-2016 (CRA)
		Completed 2011-2012 (OAG)	2016-2017 (OAG)
T1 unapplied taxes/ source deductions	Completed 2012-2013	2013-2014 (CRA)	Will be included in the T1 operating effectiveness assessment
		2014-2015 (OAG)	
T3 trust income tax	2012-2013 to 2013-2014 (CRA)	2014-2015 (CRA)	2016-2017 (CRA)
		2015-2016 (OAG)	2017-2018 (OAG)

Legend:
Assessment completed as scheduled
Assessment progressing as scheduled
Assessment scheduled
Assessment dates to be determined

Canada Revenue Agency – Unaudited supplementary financial information

Financial performance information – Parliamentary appropriations

Introduction

This section of the Canada Revenue Agency (CRA) *Annual Report to Parliament 2012-2013* provides the details of the CRA's resource management performance for the purpose of reporting to Parliament on the use of appropriations in 2012-2013. This complements the information provided in the spending profile sections under each program and satisfies the reporting requirements set for Annual Reports to Parliament.

Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and, in this section, the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of Operations and Agency Net Financial Position - Agency Activities on page 99 in the *Annual Report to Parliament 2012-2013* includes certain items such as services received without charge from other government departments and federal agencies. A reconciliation can be found in Note 4 on page 107 in the *Annual Report to Parliament 2012-2013*.

The CRA has prepared and included future-oriented financial statements in the *2012-2013 Report on Plans and Priorities*. As directed by Treasury Board of Canada Secretariat, this future-oriented financial information was prepared on an accrual basis to strengthen accountability and improve transparency and financial management. As part of the analysis of net cost of operations, the Annual Report to Parliament compares actual results to the initial future-oriented financial statements contained in the *2012-2013 Report on Plans and Priorities*.

CRA financial information

Activities of the Canada Revenue Agency

Canada Revenue Agency	**2012-2013**
	(in thousands of dollars)
Main Estimates[1]	4,374,952
Planned Spending[2]	4,374,952
Total Authorities[3]	4,673,395
Actual Spending	4,318,468

[1] Spending authorized by Parliament at the beginning of the fiscal year.

[2] Main Estimates authorities plus other amounts anticipated to be authorized during the fiscal year.

[3] Total spending authorized by Parliament during the fiscal year.

The Financial Statements - Agency Activities reports $3,943.5 million as total Parliamentary appropriations used (Note 4 on page 107 shows the reconciliation to the net cost of operations in the *Annual Report to Parliament 2012-2013*). The difference from the $4,318.5 million reported in this section is explained by two items reported in the Financial Statements - Administered Activities: the statutory disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*, $136.9 million; and the Children's Special Allowance payments, $238.0 million.

Overview

For 2012-2013, Parliament approved $4,375.0 million through the Main Estimates, as shown in the CRA's *2012-2013 Report on Plans and Priorities.*

The 2012-2013 Main Estimates were adjusted to include:

- $248.3 million for the carryforward from 2011-2012;
- $215.8 million for severance payments, parental benefits and vacation credits;
- $7.6 million for a transfer from Public Works and Government Services Canada - Reduction in accommodation requirements;
- $7.2 million for increased employee benefit plans costs;
- $5.0 million for increased Children's Special Allowance payments; and
- $1.7 million for Court Awards and Crown Assets Disposal.

These increases were offset by the following reductions:

- $143.1 million for decreased disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*;
- $39.8 million for decreased respendable revenue mainly for the provision of services to the Canada Border Services Agency; and
- $4.3 million for the transfer to Shared Services Canada to adjust the initial transfer amount to Shared Services Canada.

This resulted in total approved authorities of $4,673.4 million for 2012-2013, representing an in-year increase of 6.8% over the Main Estimates.

Of the $4,673.4 million total authority, CRA's actual spending totalled $4,318.5 million resulting in $354.9 million remaining unexpended at year-end. After deducting unused resources related primarily to British Columbia's decision to revert to a provincial sales tax model, proposed Foreign Investment Entities and Non-Resident Trusts, Budget 2012 Spending Review, Government advertising campaigns, accommodation and real property services as well as employee benefit plans associated with the conversion of Non-Personnel to Personnel costs, the remaining $299.8 million is available for use by the CRA in 2013-2014 under its statutory two-year spending authority. This amount represents 6.4% of the total authority.

The CRA's two-year spending authority enables the CRA to be more strategic in its use of public funds by taking a multi-year view of plans and budgets. The financial flexibility in 2012-2013 was somewhat higher than usual due to restraint measures introduced by the CRA in response to the Operating Budget freeze implemented by the Government in Budget 2010 and Budget 2012 Spending Review. This increased carryforward was part of the CRA's strategy to address unfunded operating pressures in 2013-2014, including previously approved salary increases for employees.

Revenues administered by the Canada Revenue Agency

Total revenues administered by the CRA amount to some $346.8 billion in 2012-2013, an increase of 3.6% from the $334.7 billion administered in 2011-2012. Please note that fiscal year 2011-2012 revenue amounts have been restated in compliance with the new standard issued by the Public Sector Accounting Board - Section PS 3510 on tax revenues.

(in thousands of dollars)	2012-2013	2011-2012
Federal government	210,265,776	202,226,727
Provincial, territorial governments and First Nations	94,829,576	93,478,201
Canada Pension Plan	41,742,977	39,026,598
Total	346,838,329	334,731,526

List of supplementary information tables

All electronic supplementary information tables listed below can be found on the CRA website at: www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html.

- Details on transfer payment programs
- Greening government operations
- Internal audits and evaluations
- Sources of Respendable and Non-Respendable Non-Tax Revenue
- Details on project spending
- User fees reporting
- Response to parliamentary committees and external audits